ENHANCING THE DEVELOPMENTAL IMPACT OF FOOD AID

HEARING

BEFORE THE

INTERNATIONAL TASK FORCE

OF THE

SELECT COMMITTEE ON HUNGER
HOUSE OF REPRESENTATIVES

ONE HUNDREDTH CONGRESS

FIRST SESSION

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ENHANCING THE DEVELOPMENTAL IMPACT OF FOOD AID

THURSDAY, JUNE 18, 1987

HOUSE OF REPRESENTATIVES,
INTERNATIONAL TASK FORCE,
SELECT COMMITTEE ON HUNGER,
Washington, DC.

The task force met, pursuant to call, at 10:10 a.m., in room B-318, Rayburn House Office Building, Hon. Tony P. Hall, chairman of the task force, presiding.

Members present: Representatives Leland, Dorgan, and Bereuter.

OPENING STATEMENT OF HON. TONY P. HALL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Mr. HALL. I'd like to welcome all of you to the hearing today before the Select Committee on Hunger. My name is Tony Hall. I'm chairman of the International Task Force of this committee. Next to me is the chairman of the overall Select Committee, Mickey Leland. Today we will be discussing U.S. food assistance to developing countries.

The Select Committee on Hunger is charged with investigating the causes and consequences of hunger and making recommendations to the Congress for programs to alleviate hunger in the world. One important tool at our disposal is food aid. The United States is blessed with a tremendous capacity to produce food.

The Hunger Committee is interested in ensuring that these surpluses be put to good use for malnourished people. This would include direct food assistance to maternal and child health programs, preschool and school feeding programs, and food for work programs. It can also include program activities to improve the ability of people to feed themselves through local food production or purchases.

Just this last weekend, Mickey and I, along with Congressman Dorgan and Congressman Ackerman returned from Haiti, the poorest country in the Western Hemisphere. There we saw our Government's food assistance programs in action, providing nutritious meals in child care centers, in schools, and supporting irrigation and soil conservation activities for rural areas.

These programs can make the difference between bare subsistence living and the chance for more fully productive lives for millions of people worldwide. We have the challenge and the opportunity to expand these programs by careful and well charted use of

legislative authorities in our international food assistance programs.

What we saw over the weekend was tragic. I'm sure many of you have been there and I can't remember seeing anything that tragic, except maybe for touring Bombay or Calcutta 20 years ago. It was devastating and extremely frustrating to all of us to determine where to start in a country like that. You can start any place.

There's got to be a better connection; there's got to be more of a plan of the PVO's and the various church groups working together.

I think there are 800 PVO's, and if all of them could start to work together, and with the aid coming from this country and other countries, I think we could begin to really address the problem.

I think until that happens, it's like pouring water in the sand and so we need to do more than just think about our programs. I think we need to think in terms of how can we all start working together in these various countries, even in Congress, to produce the kind of programs that might deliver services.

For the past several years, we've been monitoring and working on ways to improve the effectiveness of Public Law 480 and section 416 Food Aid Programs. Today we want to discuss some of the provisions in the 1985 legislation, which we hope will improve the developmental impact of food aid.

One of these provisions mandates the use of monetization in food aid. Monetization is the sale or barter of food so that currencies generated can be used in support of the food assistance programs. We believe monetization could play an important role in providing additional resources for improved food assistance. However, the monetization program has been slow in starting and very slow in being implemented. We hope to shed some light on the process of facilitating monetization proposals today, so that the program can be better utilized.

We are also interested in the President's Initiative to End Hunger in Africa. The President has called for increasing food assistance grant programs in Africa. We at the Hunger Committee are very supportive of that. We look forward to hearing more about this initiative this morning. We haven't seen anything from the President relative to the announcement that he made some time ago.

There are many more issues relevant to our international food assistance programs which have an impact on poor and malnourished people in developing countries. Some of those which we hope to address this morning include use of food aid in structural adjustment lending, integration of a famine early warning system into the ongoing assessment of food aid needs, and the availability of certain commodities under section 416.

Today we are joined by distinguished witnesses, including representatives of the Food for Peace Office in A.I.D. and the Foreign Agricultural Service of USDA, with representatives from private voluntary organizations who carry out food assistance programs, CARE and Catholic Relief Services; and with a representative of the food producer community, from the Agriculture Council of America.

We are very much appreciative of your participation. We look forward to your statements. Next to me is the chairman on the Select Committee on Hunger Mr. Leland, who I believe has a statement that he would like to give.

OPENING STATEMENT OF HON. MICKEY LELAND, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Chairman LELAND. Thank you very much, Mr. Chairman, for both your leadership and for calling this particular hearing today. I'd like to join with you in welcoming our distinguished panel of witnesses who have come to address the important issue of food assistance to U.S. developed countries.

Food aid plays a valuable role in alleviating world hunger and we know, Mr. Chairman, that food needs must be met before people can engage in productive activity necessary for the economic development of their country. Development is a major step toward solving the problems of hunger in the long run.

Hunger is an agonizing reality for millions of people around the world. The latest statistics from the United Nations Food and Agricultural Organization estimate that 730 million people in developing countries receive insufficient calories to carry out daily activities.

Through the hard work of the American farmers, the United States currently enjoys a surplus of food well beyond its needs. The purpose of this hearing is to discuss how we might better utilize the surplus as a contribution to the efforts to end world hunger. We've recently seen the tragic results of ignoring the food deficits of other countries.

The African famine cannot be repeated.

Sub-Saharan Africa remains the only region of the world where per person food needs are increasing. It is imperative that the United States continue to direct food aid to needy African nations to support their development efforts and prevent future famine.

I am pleased that this hearing has been called to address these issues and I look forward to the testimony and discussion on how to improve the U.S. role in providing food assistance to hungry people around the world.

And let me just comment, if I can, Mr. Chairman, for one minute or so on what we did see this weekend. I traveled in 1983 and 1984 to Ethiopia and in 1987, this year, to Ethiopia also and to other parts of Africa such as Angola and never had I seen the kind of gloomy conditions that we saw in Haiti.

Now, the distinction should be made that Haiti is in our Western Hemisphere. These people, without question, are our neighbors. Not that we should treat the Haitian people any differently than we do the African people, but indeed it seems to me that first and foremost, we should clean up those things that are wrong in our hemisphere. It's a lot easier because it's a lot closer. We should be at least be able to transport and we can communicate with greater ease because of the nearness. And also we have a strategic interest in Haiti, if nothing else.

It seems to me that something of the proportion of the Marshall Plan should be organized and executed by the United States on a

bilateral basis with the Haitian people. I know the complications because there is only a provisional government in place now, but the fact of the matter is that only 15 percent of the children are immunized against preventable diseases, leaving the balance of them at risk of suffering from preventable diseases and even death.

That's just the children, not to mention the rest of the people of Haiti. We are told that because of the terrain and the logistical problems that it's even more difficult and that only by 1988 will there be about 50 percent of the children immunized against preventable diseases.

We can go on and on and on. We saw people who in open fields were exercising the greatest kind of contradiction that I've ever seen. They were bathing, in sewers. They know that they have to clean themselves and so they washed themselves in the open sewers of Haiti.

The difference in what I saw there and what I saw in Ethiopia is, and I use Ethiopia because it's the other extreme, it happens to be the poorest nation in the world. Haiti happens to be the poorest nation in our Western Hemisphere—is that the people in Ethiopia tended to be more spread out, not necessarily impacted with the same kinds of contradictions or hypocrisies that we saw in Haiti.

Tony talked about the pockets of programs in Haiti. It's unbelievable. There's a continuity of filth, devastating illnesses, of all kinds of squalor there that need to be sought after, but not to mention the problems that complicate those circumstances, children dying of diarrhea. I know that we are, through our A.I.D. programs, are helping to address those problems, but not nearly to the extent that we ought to be addressing those problems.

I know that that sounds somewhat irrelevant to the hearing today, but we just got back and we know that the people will be devastated if, in fact, we don't move soon.

I congratulate our A.I.D. program and the people who work in it. They seem to be very dedicated and loyal people and the programs seem to be effective programs, but not nearly sufficient or adequate. I think that we ought to develop some kind of priority, Mr. Chairman, in dealing with Haiti because the people are very close neighbors. We have a strategic interest there. Something has to be done to save the Haitian people.

Anyway, that's a personal remark that I wanted to make. The private voluntary organizations that are working there are doing a great job. I wish, too, like you, that they would organize themselves in one association in order that they can more effectively deal with the various problems.

Mr. Chairman, let me just thank you again for your leadership in this area. I look forward to working with you and the rest of the members on trying to work out some of the solutions needed in order to address the very serious problems in the under developed nations.

Thank you.

Mr. HALL. Thank you, Mickey, and I appreciate your leadership as well, especially this trip this weekend.

We are asked to come to the House for a quorum call, followed by a 5-minute vote on some kind of arm control so we'll stand in recess for about 10 minutes.

[Recess.]

Mr. HALL. The committee will be divided up into two panels. The first panel will be Thomas Reese and George Pope. If they would come up to the table right in front of me.

Mr. Reese is Director of Food for Peace Agency for International Development.

Mr. Pope is the Assistant General Sales Manager and Assistant Administrator for Foreign Agricultural Service, U.S. Department of Agriculture.

Mr. Reese can start first, then to be followed by Mr. Pope with a statement and then to be followed by questions.

STATEMENT OF THOMAS REESE, DEPUTY ASSISTANT ADMINISTRATOR AND COORDINATOR, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT [A.I.D.]

Mr. REESE. I have a statement that I have submitted and rather than read the statement, I know you have some questions and so maybe I'll just read a brief summary of my statement.

I'd like to first emphasize that the Food Security Act of 1985 represents signal legislation for Food for Peace. Not only does it provide us with additional tools for use and development, but it adds provisions which increase our flexibility in reaching equally important food aid objectives of humanitarian assistance, market development, and foreign policy.

I also need to indicate that the law and the new provisions have turned out to be more complex than we, at least in A.I.D., and I think also in the Interagency originally anticipated.

As I have indicated in my written statement, we have dealt with this by issuing guidelines that we have transmitted to our A.I.D. field missions. We have also shared these with the cooperatives and volunteer agencies, our partners in food aid. We also held a major conference in early 1987 in Annapolis with our field staff, to actually work with them in terms of implementing the new legislation. We've had many conferences in Washington for cooperatives and voluntary agencies and also for our A.I.D. desk officers in Washington.

In our continuing effort to implement the provisions of the law, we require in fiscal year 1988, additional measures.

We want to test the use of private sector technical assistance that would be available to work with A.I.D. field missions as well as with cooperatives and voluntary agencies, to develop and hold food aid initiatives. We will also redesign our model outreach and enhancement activity. This is a development assistance funded activity to accomplish: One, provide for continuing institutional development of special volunteer agencies in the use and management of food aid programs.

Two, generate a pilot program re innovative food aid initiatives; and three, encourage and work with voluntary agencies to develop computerized food management systems to mitigate the sometimes onerous task which they are charged with of managing and tracking food aid flows.

We also need to be cognizant of the risk of too much food aid. This may be a problem in Latin America, due to a multiplicity of food aid programs in that region. Accordingly, we will continue to provide food needs assessments in those situations where we see a potential for food aid becoming a disincentive for local production.

Finally, we need to reflect that the new law was signed 2 years ago this coming December. How well are we doing in meeting international mandates? As I note in the statement that I've submitted, we're making progress.

In the coming year, fiscal year 1988, we hope to meet most, if not all of the mandate. This will, of course, depend upon possible emergencies and catastrophes that none of us can predict. Notwithstanding the unknown, we want to work with and recommend to the Interagency Subcommittee on Food Aid, that we pursue food aid programming in the following area:

Obviously the President's Initiative in Africa, where we're developing guidelines, child survival, structural adjustment program and finally, targeted and very limited school feeding, especially focused in Africa.

I hope you find this update useful and I'll try to answer any questions you might have on our progress or the food aid part of the President's Initiative in Africa.

Thank you.

Mr. HALL. Thank you.

[The prepared statement of Mr. Reese appears at the conclusion of the hearing, see p. 39.]

STATEMENT OF GEORGE J. POPE, ASSISTANT GENERAL SALES MANAGER AND ASSISTANT ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. POPE. Thank you, Mr. Chairman, members of the committee.

I appreciate the opportunity to discuss with you the world food outlook and the Department's role in these food aid programs.

In recent years, there has been substantial progress in alleviating world food problems, although there is still much work to be done.

In fact, currently the world has large stocks of basic foods. Production has been good in recent years in both the developed world and the developing world. The dramatic change in food needs in Africa this year compared with just 2 years ago, shows quickly the world food situation can change.

Several other examples come to mind of developing countries where the right combination of policies and capabilities have resulted in dramatic improvements in their food situation. Among these would be Pakistan, Indonesia, and India. In the recent past, Mr. Chairman, these countries were all major food aid recipients and they have worked hard and have really pulled their food production situation together.

It clearly shows that successes are possible and that we can continue to see improvement in the world food situation. However, we must realize that while we and other governments can offer help, the developing countries, in the final analysis, must take the necessary actions themselves to make the difference.

Overall, for the past 10 years, annual global food production increases have been running slightly ahead of annual population growth. With food production and population growing at nearly the same rate, other factors such as storage and distribution are also important components in meeting world food needs.

The problems and constraints to attaining adequate food vary from country to country. Therefore, our tools to help countries deal with this need also vary. As we have slowly learned about the process of economic development, we have adapted existing programs and developed new ones to make better use of our food aid resources.

This process continued in the Food Security Act of 1985. I would like to briefly highlight some of these tools, both the older ones and the newer ones.

The cornerstone of our food aid program is Public Law 480 or the Food for Peace Program. In the more than 30 years this law has been in existence, it has enabled the United States to meet emergency and short-term needs of hungry people around the world. Since 1954, the United States has distributed over $37 billion worth of farm products.

The Public Law 480 concessional credit programs under titles I and III have been effective in meeting humanitarian goals, economic development goals, and in creating commercial markets for United States farm products. For this year, funding for this program is nearly $929 million, which will provide long-term concessional financing for almost 6 million metric tons of agricultural commodity exports.

And I might note, Mr. Chairman, that virtually 100 percent of this program is monetized with the local currency proceeds being devoted for various developmental activities.

Our budget request for 1988, $852 million will provide nearly 6 million tons of food. Of course, the actual tonnage in any year depends upon commodity prices which we all know are variable.

The title II donation program is designed to relieve both chronic, long-term food shortages in lower income developing countries and emergency food requirements arising from natural disasters such as droughts or floods, as well as manmade disasters.

A large portion of title II food assistance moves through U.S. private voluntary organizations, as well as the World Food Program. Fiscal year 1987 title II budget is $534 million, which will provide over 2 million metric tons and this is on a grain equivalent basis, of food donations. We have requested a program level of $535 million for 1988 title II program, which will also provide an estimated 2 million tons of food donations.

While the proposed Public Law 480 program for 1988 represents a modest reduction from the amount available in 1987, we expect the total Public Law tonnage that will be shipped in 1988 will be well in excess of the volume available in the early 1980's, when programming averaged 6 million tons a year.

In addition, the level of U.S. foreign food assistance in 1988 will be augmented by donations from the Commodity Credit Corporation owned stocks through section 416 program. Section 416(b) of the Agricultural Act of 1949 calls for agricultural commodities ac-

quired by CCC to be made available under this program for carrying out programs of assistance abroad.

Thus far in fiscal 1987, CCC has committed almost 700,000 tons of grains, oilseeds, and dairy products for shipment to needy people. Currently, CCC dairy stocks are almost fully committed and as such, we do not anticipate entering into new section 416(b) programs for dairy products. However, we are continuing efforts to enter into section 416(b) agreements for grains. In fact, such commitments may reach 1 million tons this year.

Another significant component of our food aid efforts is the food security wheat reserve. The purpose of this 4 million ton reserve is to guarantee the availability of wheat, the world's basic food grain, for humanitarian food needs under Public Law 480. Up to 300,000 tons of wheat may be released from the reserve in any fiscal year for use under title II, Public Law 480, without regard to the domestic supply situation, to provide urgent humanitarian relief.

Wheat from the reserve was last used in 1985 to help meet the African famine needs, but the quantity which was used has been replenished and is available for use again. The United States is, thus far, the only major food aid donor to maintain a physical reserve of grain for its food aid programs.

For our new programs, Mr. Chairman, the Food Security Act of 1985 authorizes a Food for Progress Program through fiscal year 1990, which seeks to use U.S. agricultural commodities in support of developing countries that have made commitments to introduce or expand free enterprise in their agricultural economies.

Under this program, commodities are provided to countries that will work to implement private, free enterprise agricultural policies. Commodities provided under the program would be in addition to any assistance a country normally receives from the United States. The program can be carried out with funds available under section 416(b) or title I of Public Law 480.

The first agreements under the program were signed with Guinea and Madagascar near the end of fiscal 1986. These agreements provided 30,000 tons of section 416(b) rice to each country.

For fiscal year 1987, 19 countries have been invited to submit proposals for the Food for Progress Program. About half of the countries have responded and these proposals are being reviewed now. The maximum annual program level is 500,000 tons of commodities.

The local currency sales initiative, under the authority of title I, Public Law 480, is designed to generate economic growth through the private sector in foreign countries. To achieve this goal, sales of commodities for local currency under title I of Public Law 480 have been reinstated. The local currencies, accruing to the U.S. Government as a result of these sales, will be loaned to financial intermediaries in title I countries, who will then lend these currencies to local private entities, primarily in the agricultural sector.

In fiscal year 1987, we have signed agreements with Tunisia, Jamaica, Costa Rica, and Sri Lanka. The total value of the local currency financed in these four countries is $14 million. In addition, we are nearing agreement with other countries.

As we are beginning to implement this new program, we are hopeful it will prove an effective means to stimulate the private sector in food aid recipient countries.

Finally, I would like to briefly comment on two issues which have generated a great deal of discussion and interest in the food aid community in the recent past, and these are the tripartite food agreements and monetization.

Mr. Chairman, we in the USDA feel we must move very carefully in developing and implementing any new variations to our food aid programs. Experience, often bitter, has clearly taught us that new ideas, while appearing simple on the surface, often become far more complex and difficult to implement in actual practice. All too often, our rushing into new and exciting programs have created more negative than positive results.

As we're all aware, we often had to learn the hard way to manage to potential for discentive impact of food aid, to manage the problems of assuring adequate storage and distribution for our food donations and to assure that we don't over-burden the absorptive capacity of recipient countries.

While we are supportive to the positive use of tripartite food aid programs, for the reasons Mr. Reese discusses in his testimony, we also feel there are questions which must be addressed before we launch into major initiatives.

Specifically, we feel that except in situations of clear emergency, tripartite arrangements should only be considered when they will be both timely and cost effective. It makes little sense in an age of limited resources to spend more to move a needed commodity via a tripartite agreement when it can be shipped more cheaply under a bilateral arrangement.

And, as we have noted, while distances may seem small on a map, our experience has been it is often much quicker and simpler to deliver the needed commodity directly from the United States.

We also support monetization when it is needed to assure the delivery and handling of the U.S. commodity being donated. However, we note there is already a major Food Aid Program which is 100 percent monetized, title I of Public Law 480. This program generates over $800 million a year in local currencies which are targeted for developmental efforts. On monetization we see several issues which need to be carefully considered when we speak of the monetization of donated commodities.

Title II is designed to feed hungry people. To the extent the donated food is sold and the proceeds are used for the purposes other than to pay for the shipping and handling of these commodities, that food, Mr. Chairman, does not reach hungry people if it's sold.

We also see the potential for damage to the already established private sector in many developing countries if donated food is monetized indiscriminately.

And finally, we remember problems in earlier years when large sums of local currencies actually became a drag on fragile developing economies.

In concluding, I want to again note that this administration is committed to help the world's food assistance requirements, through both food aid and other activities to promote economic growth. The lower prices that have resulted from the changes

made in agricultural commodity programs by the Food Security Act of 1985, combined with our long standing food aid efforts, will provide us the food aid tools we need to meet that commitment.

This concludes my statement, Mr. Chairman. I will be glad to try to answer any questions that you or the committee members might have.

[The prepared statement of Mr. Pope appears at the conclusion of the hearing, see p. 54.]

Mr. HALL. Thank you, Mr. Pope. Mr. Reese.

We've been joined by Congressman Bereuter and Congressman Dorgan and I was wondering if they have any statements they'd like to make for the record.

Mr. BEREUTER. Mr. Chairman, I have questions, but no statement. Thank you.

Mr. HALL. Why don't you go ahead with your questions, Congressman.

Mr. BEREUTER. I'd like to start right in on the testimony you've just delivered. For one thing, I'd like to request for the committee more detail on the tripartite arrangements that you listed as one of the two controversial issues. I have not seen much on that controversy and I'd like to know more about it.

Second, I wondered if USDA or A.I.D. or the administration has any position on the desirability of seeing other countries move to the point where they have wheat or grain reserves as the United States now maintains one?

Mr. REESE. Well, let me respond to the first question and maybe get George, Mr. Pope, to respond to the second one.

On trilaterals, USDA and A.I.D. have done a study of trilaterals and indeed, at times, they can take time to consumate and they can be costly. What we've done is had a study by a private sector group and we are recommending that this group get together with USDA and A.I.D. and work up guidelines for future trilateral arrangements.

These guidelines then would be presented to the Interagency Subcommittee for approval and I think obviously we need to take into consideration timeliness and cost efficiency. What's happened is we haven't had guidelines in the past. We've used trilaterals in emergency situations and many times the people in the field have had to work on an ad hoc basis. So this is how we would adjust guidelines.

In terms of other countries having reserves—well, food programs—they do have reserves and I think we can call on them. In terms of other bilateral donors, maybe I'll ask Mr. Pope to respond to that.

Mr. POPE. Mr. Chairman, I didn't mean to imply on the trilateral that there's controversy except almost every issue in the world of food aid is highly emotionally charged and you very seldom find people who do not have strong views, so perhaps controversy isn't such a bad word after all. We don't have many issues that aren't controversial.

I think on the issue of encouraging other countries to create their own reserve stocks for food aid, it's more a matter of we try to get the point across to countries that they can't always depend on the United States to meet every emergency every time there is

a shortage in the world. We've taken steps that we feel are prudeot in creating this reserve, the 4 million ton reserve of which 300,000 tons can be drawn upon without regard to the domestic U.S. situation and we continue to discuss this with the other donors and the recipients on the need for understanding the reserve policy so that in serious situations we will know where everybody stands.

Mr. BEREUTER. On the Food for Progress legislation enacted in 1985, we are now underway according to your testimony in two countries, agreements are underway for this fiscal year. You indicate that 19 countries have been invited to submit proposals and perhaps half will.

Would you provide, if not now at least for the record, the indication of those 19 that have been invited and the indication of which seem to be likely to respond to that program? I'm particularly interested in that program and think that it has great potential. Is there anything beyond your testimony that you'd like to say about that?

Mr. POPE. Well, obviously, Mr. Bereuter, we can provide that information for the record and to the extent it's possible, give a status report of where we stand.

I think for the record, additionally, just the general comment that we, too, see great potential for the Food for Progress as a place in the world of food aid and development. We are going to countries and telling them that it in no way implies we're going to cut back on their normal food aid donations or Food for Progress agreements, but we're asking them if they, for their part, are prepared to take in effect extraordinary policy steps in their agricultural sector, steps that may in the short-run result in a reduction in their own internal agricultural production and we're ready to stand by them and guarantee them that we will meet that gap, we will bridge that gap.

So, it's a big step for many of these developing countries to take that and we're working with them very carefully and trying to make sure that both sides understand what's involved here, but we will provide the information for the record.

Mr. BEREUTER. And it would appear to have great potential in Africa. Are most of the 19 countries that have been invited on the continent?

Mr. POPE. I think most of them are in Africa.

Tom, do you have that list? I'm not sure I have the list.

Mr. REESE. I have a list and somebody can provide the information. I will just elaborate in terms of what Mr. Pope has said.

In terms of the President's Initiative in Africa, an obvious question is where does the money come from in terms of times astringency? Where do we get the money?

Well, one opportunity is through the Food for Progress Program which calls or draws from section 416, off budget resources. Again, as Mr. Pope has said, it's a process of one you can't displace, current food aid programs, title I or II, and also we have sugar quota compensation programs, which in a sense compensate countries for having lost importing sugar in the United States if they are provided commodities under section 416. We have eight sugar quota countries in Food for Progress and some of them in Africa.

But I think that as we move into the initiative, we can look for other candidates in Africa. We will provide—what we did is we solicited worldwide and there were 19 different countries. Four or five of those were in Africa.

[The Food for Progress information referred to above appears at the conclusion of the hearing, see p. 53.]

Mr. BEREUTER. I do hope that when we look at the costs and the benefits, we're assessing the incredible and growing storage cost of grain in this country and the deterioration of the grain stalks that inevitably takes place. Those are costs, too, and it seems to me to outrage many American citizens to understand what we are paying today and what's happening to the grain that we're storing, in light of the potential for financial beneficial use of it in these countries to begin to influence them to take careful steps which remove counterproductive practices from their domestic agricultural production.

Particularly apropos I think to that——

Mr. HALL. Would you like to continue or would you like to take another series of——

Mr. BEREUTER. I would ask for a second round.

Mr. HALL [continuing]. Questions and then go back for a second round.

Mr. BEREUTER. Thank you, Mr. Chairman.

Mr. HALL. I'd like to touch a little bit on monetizing. Mr. Reese, your office is to be commended for the good work that you do in your food assistance programs.

However, in the 1985 farm bill, we made some changes as a result of some of the hearings we had here. One of them had to do with the 5 percent monetizing target in the title II program.

In your testimony, you state that you expect to achieve it, but it's my understanding that you can achieve it because the tonnage shipped will fall far short of that subminimum that we set in that bill. My first question has to do with why is this subminimum not going to be met this year?

Mr. REESE. Well, let me address the first question, the latter part first. To quote Yogi Berra, it's not over yet, the year's not over, fiscal year 1987 is not over yet.

But our best estimate is that we would hit about 1.3 million metric tons under the subminimum and you're right, we had mandated 1.4 million metric tons.

First of all, as I said before there are opportunities for new legislation. On the other hand, they turned out to be complex and we have some new programs that we're working on, child survival for example, which we think is an improvement over the former MCH Program. In other words, child survival with active interventions, immunizations; the structural adjustment program, which in the structural adjustment process, people are displaced. We call it a triple whammy. Unemployment goes up, prices could go up, and social services go down.

We want to assist countries in getting a safety net to catch people who otherwise would be, let's say, cast adrift in structural adjustment and these programs have turned out to be very complicated. As I said in my statement, we're encouraged now that we will hit the minimum in 1988.

Before coming up here, we did a look at 1988 and I think the budget would be fully subscribed when we look at the subminimum. We would expect to hit the 5 percent on the subminimum. Now on that I might just say that in terms of monetization, in terms of voluntary agencies, we have $8.3 million that we've already approved. We have $3.7 million pending, which we think the Interagency will agree to when we finally reach proposals. We have another $8 million worth of cooperative programs that are approved, so if you take cooperatives and PVO's together, we've monetized about $20 million of title II and that exceeds the subminimum.

But we certainly expect to hit the subminimum of 1.4 million and we expect to do the monetization next year.

Mr. HALL. What's your tonnage now?

Mr. REESE. On the subminimums now, 1.3 million metric tons, so we're a little less than 75,000 tons short of hitting the 1.425 which is mandated.

Overall title II will exceed the minimum, which is 1.9 million metric tons. We'll be up around 2.2 million metric tons for the year.

It's a question of getting targeted refined programs that address some of the issues that we've heard about in Haiti. For example, in Haiti, a quick analysis. We have somebody in Haiti right now. We're providing over 140 percent of the import requirement of wheat in Haiti and that would argue we should not monetize.

As Mr. Leland said we have this anomalous situation of very high infant mortality rates, very high child death rates and certainly not all children live in Haiti. What it argues for is not, from our point of view, not 100 percent monetization, but targeted programs with partial monetization may get at these problems. That's what we're working on for 1988.

Mr. HALL. When you talk to people about monetizing and you talk to the PVO's and then you talk to A.I.D. people and then you hear about this Interagency group that makes the decisions, everybody seems to be pointing the finger at everybody else. The PVO's say oh, yeah, we want it. We can't get it though, they won't approve it. A.I.D. says the PVO's aren't asking for it and then people on the Interagency group, they're all pointing fingers and it's confusing.

It seems to be that the guidelines seem to be rather complex. Is there any push to streamline these guidelines to be a little more efficient, more effective so, in fact, we can get this program underway?

Mr. REESE. Well, as Mr. Pope has said, it is complex and almost every aspect of food aid is controversial because you're dealing with a multifaceted program, but on the title II, the monetization, there are a lot of people involved in the sense the buck stops with us because we present the proposals to the Interagency group.

In terms of the Interagency group, there are computer entries. I mean, State looks after trade and so forth and displacing commercial sales. What we've done is we have modified somewhat the guidelines on monetization.

But I think more importantly is we've attempted to reach out to the volunteer agencies and explain what the guidelines mean and

how the agencies can activate them when the process of actually writing a manual, a cookbook, of how to monetize—I mean it's fine for us to sit in Washington and tell one of the PVO's to sell off 1,000 metric tons of vegetable oil in Dar es Salaam from the project, but how do you exactly do that?

Well, I don't know. I've never done it, but we are putting together, based on fuel experience, how to and where possible, the A.I.D. missions are willing to assist, if indeed the voluntary agencies want us to. So, it's not a question, I think, of rewriting the guidelines. It's a question of working with the voluntary agencies to gain more experience.

Mr. HALL. Questions, Mr. Leland?

Chairman LELAND. Thank you, Mr. Chairman.

Let me ask, we've recently witnessed the extreme poverty in the people of Haiti, as I've indicated. What title II program assistance is being planned for Haiti in the next fiscal year?

Mr. REESE. Well, we plan to continue the programs we have. We have, in the jargon, all spiggots operating in Haiti, title III, which gives a loan, commercial transactions, Mr. Pope said. Title II, feeding programs, school feeding, MCH, section 416 programs through a consortium of small voluntary agencies and I think he said there are 800 voluntary agencies, so it's complicated.

What we would like to do is, for example, upgrade two of the child survival programs in Haiti. We hope to do this in 1988 and we've just made available dollars of development assistance money to do this. We are going to send a senior, actually he's our most senior peace officer to Haiti sometime this year, to pull together the various elements of the Human Resource Division to focus on some of these problems we've talked about, to try and make better use of the food.

We have, as I said before, there's somebody in Haiti right now who's looking at the assessment issue. Food in many ways—contraband is pouring into Haiti. The local prices are coming down. You're going to see a decapitalization of the rural sector of Haiti, which will mean more unemployment. So, we have to be careful about coming into the market with more food because it will just exascerbate that trend.

On the other hand, we do want to try and refine and if we can increase our targeted programs, we certainly are willing to do that.

Chairman LELAND. Let me ask you a question about the contraband food. I understand that that is a big, big problem.

Mr. REESE. Very serious problem.

Chairman LELAND. And implicitly we heard that this is really accruing to the benefit of the recipients of the food because the contraband, of course, is less costly to the people of Haiti than is the food on the market. But in the long term, it's devastating to the economy of Haiti.

Maybe you're the wrong person to ask the question for a qualified answer, if you will, but probably the right person because of your interest in what you're doing and your ability for you to analyze how it interferes with what you're doing there; can you respond to the question, What do we do about the contraband problem?

Mr. REESE. Well, this, as I say, we're interested in terms of the needs assessment because if you look at the variety of food aid programs technique, we're over 140, 150 percent of the lead import, which means no commercial purchases and what happens, if you get that much of a commodity, you begin to obviously stabilize local production. So, that's the reason we're looking at this situation.

We also are aware of the contraband problem. What's happened is that in the past apparently food was tightly controlled, the farmers had an artificially high price, there was a great deal of production. Now, under the new government, it's more open, food is flooding in, there's contraband, some imports, prices are dropping and over the medium term you may get, as I say, a decapitalization in the agricultural sector.

What do we do about it? We don't know. I talked to somebody the other day, just yesterday, our colleague who's in Haiti and she was explaining a problem to me. I had anticipated that you've been to Haiti, you might ask more food aid for Haiti, so I was talking to her. What do we do? And she said, you know, the answer is not real macro food aid in the sense of pouring more food, it's just continue this trend.

But there is a segment of people here with an infant mortality rate of 128 child survival rate before—the probability of a child dying before age 5 of 20 percent. These are malnourished related causes of death. There is none here for targeted feeding, but how do you get that and how do you do it without determining this trend? We just don't have the answer yet, but we're looking at it.

Chairman LELAND. What about using our Coast Guard to interdict those who are taking this contraband to Haiti?

Mr. REESE. Maybe I'll ask Mr. Pope to respond to that.

Mr. POPE. My friend from A.I.D.

Mr. Chairman, I can't comment on that. My friend and colleague. OK. Haiti is an interesting, it's a vexing problem because I suspect that in this audience are PVO's who could argue quite eloquently against additional food aid for Haiti because they do it with us whenever we have swine producers in Haiti come in and say you've got to help us get animal feed and corn because we're trying to rebuild the pig population of Haiti, which had to be slaughtered 2 or 3 years ago because of swine fever.

Chairman LELAND. It's white pigs that presents even a greater problem as opposed to Creole pigs.

Mr. POPE. The problem is that you've got some PVO's who pour their heart and soul and perhaps their resources into farmer projects to grow corn and the minute we unload animal feed into Haiti, the bottom drops out of the corn market and these farmers lose interest in producing. So it's always another door that you have to open on these projects that you meet yourself coming back.

Chairman LELAND. This is a part of the American Plan, right?

Mr. POPE. Pardon?

Chairman LELAND. Are you familiar with the American Plan?

Mr. POPE. Not that one in particular, no, sir.

Chairman LELAND. Well, the American Plan is something that's looked upon as being very bad by many of the Haitian nationals who are on a grass roots level, who believe that the United States

is doing a lot of this stuff to undermine the Haitian people and their independence and sovereignty. I know that sounds farfetched, but it is a perception that is created even with the white pigs versus the Creole pigs. They think this is a means by which the Americans came in and slaughtered all the Creole pigs for the purpose of undermining the independence of the Haitian people to get them dependent on American aid. It was our understanding, by the way, that this is possibly a growing sentiment on the part of a lot of people and some Haitian politicians are even using this who are anti-American.

But what I'm really concerned about is what you do for providing foods and for the animal stock there——

Mr. BEREUTER. Will the gentleman yield on the question?

Chairman LELAND. I'd be glad to.

Mr. BEREUTER. Thank you.

I've wondered why we simply don't authorize the use of our feed resources to be used as subsidy in a recipient country like Haiti, to keep the existing prices high enough for those people attempting to produce food, at the same time providing assistance to sustain the agricultural producers that are trying to grow swine.

In a way it's a little bit like monetization to affect domestic policy. It would be an instance where we could sustain existing prices for farmers, not force them out of the market, at the same time bringing in sufficient food to meet hunger and livestock producing objectives. What's wrong with that approach? Anything?

Mr. POPE. Mr. Bereuter, like many of these proposals, on the surface it sounds like it can meet all objectives. I think we would have to think it through. Haiti is probably the worst country we can talk about on developing and implementing new initiatives because of the social and political and infrastructure and economic problems there.

Again, you have the problem of bringing food in and I guess under your proposal it would feed the people in the city while somehow the resources would then generate funds to maintain farm support levels. I guess if you could segregate it apart from everything else that's going on in Haiti, it would have a possibility, but I'm not sure our A.I.D staff and other staff would be—we would have to manage the whole thing and that would be extremely costly and time consuming and there are other countries in the world where we can do things more effectively and more efficiently.

Mr. BEREUTER. Thank you.

Mr. HALL. Mr. Dorgan.

Mr. DORGAN. Thank you, Mr. Chairman.

Mr. Pope, I'd like to ask you a couple of questions that are not necessarily related to what we've been talking about, but are important to me and I think important to the issue of how to move the grains that we have in this country around the world.

Cooper Evans from Iowa and I have for a number of years worked on the issue of countertrade or barter. I happen to feel that there's an opportunity around the world to move some of our surplus commodities to other countries that are cash-poor, cannot pay for it, but do have strategic materials, for example, to trade us for grain.

The result is that I had CRS do an analysis of this a couple of years ago and they found up to $27 billion worth of opportunity just in strategic materials alone for countertrade or barter. The fastest growing segment of world trade is countertrade or barter and we're not involved in any of it.

Many countries have long-term permanent barter agreements. Now, I have visited with the Secretary of Agriculture to talk about barter and have discovered that the official position of the USDA is, "we ain't interested." They say it more eloquently than that and it takes them longer, but they simply say, "we're not interested."

They say if barter is to be accomplished, it should be accomplished in the private sector. So, I amended the 1985 farm bill, to require the USDA to conduct pilot barter transactions in the next two fiscal years. We are 3 months away from the end of the two fiscal years. Can you give me a report on what the USDA has done to this point?

Mr. POPE. Yes. We have held consultations with the two agencies, other agencies in Government which are mainly responsible for strategic materials, the Department of Energy for the petroleum side of it and GSA for the strategic material side. We have come to a conclusion that probably the best mechanism for meeting the legislative requirement that we have two pilot barter programs on the books by September 30 of this year, would be to exchange commodities for petroleum, to further the petroleum reserve.

So we're meeting two or three times a week now with the Department of Energy to work out the relationships and the terms of trade and the payments for our going into the marketplace in effect and offering to a select number of countries, which have the type of petroleum that Energy is buying this year, they're buying sour petroleum, whatever that means, instead of sweet crude this year, so that limits the countries.

And, hopefully, within the next couple of weeks, we will be approaching these countries and saying here's the package, would you like to participate? Here's what we're prepared to offer and how much petroleum are you prepared to give us for how much grain and we'll see what the response is. We want to do where we go to several countries at once so that we don't spend all of our time going to one country and having weeks of negotiations and then do a second country and running out of time. We want the marketplace to tell us how this barter is going to work and the marketplace is the best judge of whether it's going to be worth our while as a government to enter into this agreement or if it's not.

Mr. DORGAN. Well, let me tell you my concern. My concern is it's very late. The Secretary has not wanted to be involved in this at all. I think the USDA has been dragging its feet for months and months and months, frankly. I just want you to know and I hope you tell the Secretary, he probably does know. I made a statement on the Floor of the House a couple of weeks ago, I've written him a couple of letters, some of them rather crisp recently. I want you to tell him that we don't pass laws down here just as a lark.

When we pass a law that says we want you to conduct two pilot barter projects, we damn well expect the USDA to do it. If the end of the fiscal year comes and because the people down there have been dragging their feet talking about trying to figure out how the

market mechanism will trigger countertrade and so they don't get some transactions done, I fully intend to see if we can't adjust the USDA's budget to more appropriately reflect things they're not doing.

I mean, I'm upset by the USDA's behavior here because going all the way back to John Block, it was made clear to myself and Cooper Evans and others who have been interested in this project that the USDA has no interest. Now, I happen to think this barter area holds great promise. I don't think it's a solution to all of our problems in any one area, but it does hold promise for us to move food from us to cash-poor countries, in exchange for commodities which they have and we would be interested in, and yet there are two things that seem to have been impediments in this administration.

One is the obnoxious notion, in my judgment, that the market system will somehow develop mechanisms that send signals on whether transactions should be made or not. In this case, the Congress has sent the signal and the signal is clear enough and understandable enough and I hope that the USDA understands it.

I guess I'll take the opportunity once again to say, time is short and I'm going to be very upset and the anger is going to be manifested in ways the Secretary is not going to enjoy at all if the USDA does not find its way through this code to do what we've put into law for you to do. So take that back to the USDA, if you will, and give them my best regards. [Laughter.]

Tell them we're here to help them and in the next couple of months, to the extent that you need any assistance, I stand available to offer that. And in the event that you need any additional prodding, I stand willing to provide that as well.

Mr. HALL. I'd like to ask a question on generic certificates. We understand here in the committee that there will not be enough nonfat dry milk to meet the request under section 416. However, we understand that CCC holds thousands of metric tons of nonfat dry milk which could be reconditioned to be appropriate for a feeding program.

My question is, Wouldn't it be possible to recondition the milk currently held in CCC's stores through the use of generic certificates?

Mr. POPE. Mr. Hall, you are correct that the stocks of surplus milk in CCC inventory has dwindled to such a state that we are not offering or assigning new programs for the milk. The milk that we have in stock now is older milk. The milk generally falls into two categories. The milk is still good for human consumption, food growing, but it's old so you just can't mix it up and eat it and drink it straight.

And we are reprocessing that milk. We are reconditioning that milk and it's really the mainstay of our title II program right now.

The other class of milk that we have is milk that has gone out of condition for human consumption, that's B grade milk and our analysis is that it's just not economically feasible to take a commodity such as that that's gone so out of condition that it's not classified as good for human consumption and try to recondition it.

We think there are apple stocks now to meet our title II commitments, to meet our commitments that we've made and so that's the status of that.

On generic certificates, using generic certificates to pay for that, we feel that's not necessarily the issue because we feel that funds are available on those stocks of milk that need to be reconditioned for use in the programs, it's just better, we think, to write a check and to pay for it because if we use generic certificates that dumps those commodities back into the domestic economy and they ultimately flow through the back door of CCC and you wind up writing a check for them any way, but you have 15 pieces of paper trailing along, so we try to limit the use of generic certificates in that aspect.

Mr. HALL. Now, we've had generic certificates around for a long time. Have we ever used it?

Mr. POPE. To my knowledge, and I hate to comment on the word ever, but to my knowledge, I don't think we've used generic certificates to pay for services. We have used generic certificates on the domestic farm programs as payment to farmers for the commodities. We're using generic certificates for our Export Enhancement Program, which reimburse exporters for commodities that have already been exported, so that's not really a net addition to the U.S. domestic supply.

So I think the answer is, no, on your question of have we used generic certificates for payment of services or things like that.

Mr. HALL. I'd like to ask a question about tripartite arrangements. You didn't particularly talk in glowing terms about it. I suspect, I think as a matter of fact, you said you support it from the standpoint that it was in the President's Initiative of March 11. I get the impression that the Department is moving very slow on this.

I get the impression from your statement that many of you are not terribly excited about it and therefore, that is why there is a lot of—the movement is really slow.

Mr. POPE. Mr. Hall, for years we have used, the U.S. Government has used tripartite agreements to meet emergency food needs. When there was an emergency need in one country and it would be virtually impossible or extremely difficult to get the commodity they need to them, yet a country next door has a surplus, we have made arrangements over the years to arrange to have country A ship their surplus to country B to meet the immediate need and then we reimburse country A with the commodity they need.

Wheat, for example, and we in the Department had supported those and encouraged those over the years. What has happened, and it really is a very recent phenomenon in Africa, in many of the countries that just 2 years ago were desperate for food, the rains have come or we've introduced some new policies, some new fertilizer and all of a sudden some of these countries have surpluses that for various reasons, they are unable to sell in the world marketplace.

So, all of a sudden it's become a great area of interest. Well, why can't we and the U.S. Government somehow utilize the surpluses in Zimbabwe to feed hungry people in Mozambique and then we repay Zimbabwe with U.S. commodities?

We're saying this is a new twist, this is a new twist to use these tripartites as almost a support mechanism in many of these developing countries and we want to think it through, as I said. We've found that in many cases when you get through and sift through it, it costs far more to do it that way then if we had just shipped our commodity.

In some cases, there's no way we could ship our commodity, so timeliness is a big question and cost is a big question.

Another issue if you look at a map, it's not where you're moving commodities from here to Baltimore. On that distance you've got to move them in Africa, across two rivers where there are no bridges and three warring factions there, where a lot of times it is easier to get the commodity from the United States and into the port and out of the trucks.

So, I'm saying it's an emerging issue, one that we've had a lot of discussion on and we're sorting our way through. I think A.I.D. has contracted a study with a consultant downtown. They did a fine job as a first cut. It raised other questions that we're going through now, so I think it's something you will be hearing about because it's something we're all quite interested and properly used it has very positive potential.

Mr. HALL. What about the second part of that question about the President's statement? He made a statement on ending hunger in Africa. It's a major statement and he outlined several proposals. That was made in March, early March. What's happened to that statement, to that proposal?

Mr. POPE. I think, Tom, if you can—the food aid aspect of that proposal was really one of the smaller components of ending hunger. It was an economic development and I think there has been some significant steps taken as the way the U.S. Government approaches Africa and our budget presentation and our thinking that all aid, not just food aid, should be tied to policy reforms which is very important.

Obviously, on the food aid side, we're going to be moving toward——

Chairman LELAND. Excuse me. Will the gentleman yield?

Mr. HALL. Of course.

Chairman LELAND. Give me that again about tying food aid to policy reform?

Mr. POPE. Well, I think in the President's Initiative, we've said that all aid to Africa will—some how we'll try to tie it to a country taking a step toward policy reforms to end hunger in their country. It's not just the small food aid component.

Now, aid for progress——

Chairman LELAND. Is a policy issue formed relative to food.

Mr. POPE. Ending hunger, yes, sir.

Chairman LELAND. OK.

Mr. POPE. The food part, we're really moving toward turning all food aid to these select countries and to grant food aid. There are several mechanisms we can do that by, title II, title III, or section 416. We're trying to develop the best one there and I think, I don't know, Tom, do you have more of a general statement on that?

Mr. DORGAN. Can I ask a question on a couple of the Chairman's questions. Is that all inclusive when you're talking about policy

reform and you say ending hunger, is that all inclusive? Is that the only thing we're talking about in policy reform?

Mr. POPE. Well, I think it obviously would be broader than that because ending hunger really gets to all aspects of what's going on in these countries, but the focus of the President's Initiative were steps that these countries can take to end hunger by the year 2000 and that's the goal we're working from and everything radiates from that goal.

If there's something else that needs to be done, it'll have to be tied in.

Mr. DORGAN. If the gentleman will yield.

That sounds to me a bit alarming. I'm not quite sure I understand what's contemplated there. Are you suggesting that our food aid is tied to policy reforms and political areas, like United Nations support. I mean, I don't understand because we've been through debates before with people saying, "Well, let's deal with one of these developing countries on the same basis they deal with us. They may need food, but let's say we'll give you food if you support us 80 percent of the time in the U.N." But where does that end when you attach policy considerations?

Mr. POPE. I think economic policy is what we're speaking of here, economic policy.

Mr. DORGAN. I don't think, and I sat in on many of the meetings as we developed this, that was ever brought up and it was never ever envisioned, the political arm twisting, that type of——

Chairman LELAND. Will the gentleman further yield?

Mr. HALL. Mr. Chairman.

Chairman LELAND. You talked about all inclusive and economic reform or economic policy. That bothers me too. I mean, when you start talking about economic policy, then you start talking ideology as what happened with the Ethiopians in 1984 and let's start with 1983. The President held up funds that we had appropriated to go to Ethiopia for almost 6 months because we didn't like the ideology of Ethiopia and because we didn't move probably many thousands of peopie died unnecessarily.

Had we moved earlier, we would have as a matter of fact been in the forefront of the movement to help save people in Ethiopia. Is this what we're talking about?

Mr. REESE. Let me comment, if I can, for a minute because this is an Interagency activity and indeed there is progress. There are things going on and committees meeting and there's a tack force and so forth. Let me just first run through the elements that are being dealt with by various people in the Government and then address the question that Mr. Leland asked.

The elements of the plan call for donor coordination which is always a good thing. We're doing a coordination focus, a development fund for Africa to give A.I.D. a little more flexibility in using and trying to apply its funds in areas where there are opportunities, opportunities for growth long run ending hunger in Africa, addressing death. A real problem.

In the paper a couple of weeks ago, there are 12 African countries that may go belly up or not be able to service their debt. Doing that on a multilateral basis and a bilateral basis, food aid, that's where we have the action and working with our colleagues.

I'll come back to that in a minute because we're doing three things in food aid.

Private trade investment, private sector involvement.

Now, back to food aid. What we would like to do and what George is talking about is that in the legislation, title I and title III, there are certain self-help measures that we have to encourage countries to engage in. I think that's what we're talking about, self-help measures that resolve in economic growth. Certainly nothing to do, in my mind, with how somebody votes in the U.N. or in terms of making political changes, but self-help measures. Self-help measures that result in growth.

Chairman LELAND. We're not talking here then about pointing a finger at a country saying that Marxism and Leninism starves people.

Mr. REESE. No. To my knowledge, we're not and again, the plan isn't here and I'm not commissioned for the administration to talk about the problem. We're talking about the South Africans. What we're talking about is trying to resuscitate title III which can be effective in Africa because you get many bangs for 1 buck. They get the commodity and they save the foreign exchange by not buying the commodity.

They get the local currency. They get debt relief in the sense that if we execute a title III agreement and the country has debt coming due, the debt is rolled back and plus if they adhere to the agreements of the title III agreement, the loan is forgiven.

So, we think that can be an effective instrument. It's something that is written into the law Congress passed. We haven't used it as effectively as we might have in the past. We see this as an opportunity. When we talk about dialog and so forth, I think we're talking about the self-help measures within title III which are stipulations that Congress gave to us.

Two, we're talking about the targeting, getting at the social indicator, human capital investment. If you look at the social indicators for Africa, infant mortality over 100, child death about 20 percent, literacy down. Getting it at these indicators which is a problem, a problem we show and finally the trilateral and again I think Mr. Pope has said what we need to do is take their study and our study and see if we can't come up with guidelines.

And all of this is moving and I would presume in the near future there would be a presentation on the initiative and these various elements.

Mr. DORGAN. Might I just inquire once again, I'm trying to understand, if I might, exactly what you're saying.

I agree with you that our behavior and our activities in certain areas ought to be to encourage self-help, even as we attempt to provide whatever help we can. The encouragement of self-help and the development of that encouragement in any way that's possible is something I think I support. I would guess most members of this task force support it. Conditioning certain self-help initiatives as a part of our food aid, however, is another matter altogether and the reason I suppose you ring some bells when you talk about connecting policy to food aid, is there is an implicit suggestion that the food aid is conditioned on certain in-country behavior.

And I guess I would like to ask you your own opinion and perhaps Mr. Pope's opinion if you also would find it difficult to attach policy considerations as a condition, as a condition of food aid, because I would find that pretty difficult.

Mr. REESE. Well, I think you have to separate the situations. Where you have a situation where people are in need and emergencies and so forth, there are no conditions. Mr. Leland knows well the African experience. We responded over $1 billion and 2 or 3 or 4 metric tons, great cost to the U.S. Government. To the people, it's certainly a cause well served. There are no conditions in that situation.

When you're talking about targeted programs, programs that are aimed at child survival or primary school feeding, this kind of thing, you're not talking about conditions. You're talking about getting at need.

When you're talking about the commercial mechanism or the macromechanism, there are certain—again, I would not use the point conditions, but self-help measures that are called for in the legislation and this talks about increasing production, getting food to needy, so forth and so on. Those things we take seriously, we have to adhere to.

Mr. DORGAN. Well, I'm just dealing now with an issue of Oxfam American sending garden tools to a Catholic group in Nicaragua, which the State Department has disapproved when the same State Department said it's humanitarian to send helicopters to the contras. Those are the kinds of dichotomies that lead me to question whether we ever want the State Department to be attaching policy questions or United States Steel or anybody else attaching policy questions or conditions to food aid.

Food aid ought to be humanitarian aid this country extends to others around the world who need help.

Chairman LELAND. Mr. Chairman, again, if I can?

Mr. HALL. Certainly.

Chairman LELAND. What about Angola and Kampuchea?

Mr. REESE. Well, Angola we just approved the other day about $5 million worth of emergency title II food assistance for Angola.

Chairman LELAND. By way of?

Mr. REESE. By way of UNICEF. We had been in and out of Angola with ICRC. Last year we had money earmarked for Angola with ICRC.

Chairman LELAND. Why can't we do something on a bilateral basis with Angola?

Mr. REESE. Well, we'd prefer to give aid——

Chairman LELAND. I understand the preferences, but you know what I'm talking about.

Mr. REESE. I think our response is this, that we'll do whatever we have to do to get food to those who need. Somebody has been in to Angola recently, a gentleman who's briefed the State Department Refugee Affairs. He's coming to my office to brief us. We'll see what his opinion is. We're getting anecdotal information. There may be additional need in Angola and I think my point is that——

Chairman LELAND. Don't you think that——

Mr. REESE. Let me respond to that.

Chairman LELAND. Don't you think that if we did it on a bilateral basis that it would be much easier to deliver the food. We're a lot more efficient than UNICEF and other agencies of the world.

Mr. REESE. Well, but UNICEF and ICRC are established voluntary agencies who have a record of responding——

Chairman LELAND. I'm not trying to demean by any means these organizations.

Mr. REESE. I understand, but I think for us the problem is one of——

Chairman LELAND. Politics.

Mr. REESE. No, it's not politics. It's one of need.

Chairman LELAND. Did you say it's not politics?

Mr. REESE. Politics is involved in all food aid, but I think more importantly——

Chairman LELAND. Did you say politics is involved in all food aid?

Mr. REESE. Politics——

Chairman LELAND. I appreciate that. That's very honest and candid of you. I really appreciate that.

Mr. REESE. Well, we're being unreal to say that there isn't a political element to all our programs.

Chairman LELAND. The President said that hunger—what did he say?

Mr. REESE. What I'm trying to say is that first and foremost is——

Chairman LELAND. A hungry child.

Mr. REESE. Exactly. Exactly, but you do that. You do that. And if it takes dealing government to government, if it takes dealing with the voluntary agencies, that we stand ready to do what we have to do to get food to the needy.

Chairman LELAND. Let me add one little caveat here.

In Ethiopia, our experience was that we had a real problem of transportation. Mr. McPherson would indicate if we can get those Soviets and Russians to let us use their trucks and blah, blah, blah, we could do a better job, but they won't do it.

Finally they started allowing us to use their trucks and so forth and it got to be better.

I just recently returned from the Soviet Union with the Speaker of the House where I talked to Mr. Gorbachev, Mr. Chevranofski, Mr. Gromyko, and Mr. Dobrynin in public sessions and in private sessions and I offered a proposal that we would provide food to help the people in Mozambique who are suffering from malnutrition and starvation if, in fact, we could achieve a cooperative venture with the Soviets where they would provide the logistical transportation means by which we could deliver that food, we could initiate bilateral cooperation, actually trilateral with the Mozambiquans themselves, in helping to deliver food.

This would then serve as an example, we could do on a much more effective and efficient job to help the suffering people in Mozambique. All of them agreed,. I came back and talked to our State Department. Maybe this is something too political for you to get involved in, but I talked to our State Department and I met with Mr. Crocker on this issue. He said well, you know, the Russians have only given some $300,000 and some odd to food aid and all that and

we're committed to I guess about half the food aid to Mozambique and we're already operating there.

Why don't we challenge the Soviets to give more food and more money as opposed to working with them, which would then give them credit that they don't deserve. Well, the fact of the matter is that took Mr. Crocker to the Speaker.

The Speaker, by the way, is behind this program, wants very much for us to execute the program and Mr. Crocker then explained to the Speaker and the Speaker got very frustrated and said well, to hell with it.

As we were walking out the door, Mr. Crocker said to me, he said well, we're not talking about African policy there, we're talking about East-West politics.

Well, the fact of the matter is that people are suffering there and if we had the Soviets and the United States working together to solve problems in Mozambique, maybe, just maybe we could stop all the fighting in Nicaragua and other places and work cooperatively to help save other people there.

Do you find this efficient to advocate a cooperative campaign with the Soviets to help to solve the problems of hunger and malnutrition in places like Mozambique where we have an evolving relationship and, as I understand, a good working relationship with the Mozambiquans and the Soviets have also an involvement there and have been there longer than we have?

Mr. REESE. Well, I ought to do two things, either stay away from this or give it to Mr. Pope. [Laughter.]

My ex friend.

Obviously there are different levels here and I can only comment on one level and what I would say is that again, we take the humanitarian responsibility, the humanitarian objective of the food aid, very seriously and it certainly is an on line first among its peers in terms of the other objectives.

Mozambique is very complicated and the dimensions to it, as you're outlining here, but from our point of view, where we are now, given the history of Mozambique, is we and the other donors, the EEC, the Canadians, Italians, and so forth, have urged the United Nations to become involved, to take an interest and coordinate the overall effort.

That's working reasonably well. The people who can be reached are being reached. There are still other people who can't be reached and we would like to do what we can to reach them.

What I hear is that if, indeed, the United States and Russia just went off on its own two faceted relief effort doesn't necessarily serve any useful purpose. It might even be disruptive, but if the Russians want to participate, why not participate through the U.N.? You've said yourself, we have committed $75 million, about $69 million with the food aid this year and the Russians $300,000, but there's a mechanism there that people are working through and we all ought to work together through that mechanism.

Chairman LELAND. I'm not trying to isolate the Soviets and the United States at all. I'm saying that why is it that we can't at least take the leadership and let the Soviets say OK, let's work with the U.N., let's use this conduit, let's work together, but what Mr. Crocker objected to was us going to them and say in a friendly way,

in a diplomatic way, let's do that. What he wanted us to do was to go out and call a press conference and challenge the Soviets to do this. Why is it that we are so afraid to work side by side with the Soviets?

Here we are trying to resolve this huge macro problem of the threat of nuclear armaments all over the world, the Soviets and us pointing weapons at each other and our allies.

Here is something that we can do together to show the world that we can cooperate and help through humanitarian means. There's something awfully wrong there and we see people like we saw in Haiti and in Ethiopia and we know what's going on in Angola. The people who I saw in Angola are suffering tremendously. In fact, we're supporting UNITA and somebody else is supporting Angola, and all we do is torment this war when in fact we ought to be working together to solve these problems. And, often, if we're working together to feed hungry people, we wouldn't have time to argue about all that kind of stuff.

Aren't we the ultimate humanitarians? I mean, isn't that what this is supposed to be all about?

Mr. REESE. Well, indeed it is and I think though in situations like you give in Mozambique, you do need a central coordinating agency and that's been given to the U.N.

Chairman LELAND. Thank you, Mr. Chairman.

Mr. HALL. Thank you, Mr. Leland.

We have a lot of questions we want to ask, but we're not going to be able to ask them. We'd like to submit some questions for the record. Mr. Bereuter is going to speak, he's going to ask a couple of questions and then he'll have some questions to submit to you too.

Mr. REESE. OK.

Mr. BEREUTER. I'd say I'm going to speak with respect to what Mr. Leland just said, but I do have questions which I'll submit, but I did want to comment specifically on one item and now it is two items.

As a member of the authorizing committee for the foreign assistance programs and the other committee, a member of the authorizing committee for our multilateral assistance programs, the Banking Committee, I believe I am very pragmatic about our foreign assistance programs and the need to maintain, as difficult as it is, political support for them among our citizens. There is very little support for foreign assistance in terms of percentage or large numbers and, therefore, I think it is certainly not worth the difficulties of providing direct foreign assistance to Angola when you alienate major parts of population, major parts of this Congress, and jeopardize the overall amounts that go to foreign assistance.

If you can feed hungry people in Angola by indirect means and avoid that kind of political cost, you better do that. You can let the private organizations do what they think they have to do with respect to people in Nicaragua. Then your costs are dramatically reduced.

If you can avoid giving the right wing even more ammunition to shoot at Mr. Crocker, then you ought to avoid that unnecessary damage. You have to be very pragmatic to preserve the fragile coalition of support we have for foreign assistance, bilateral, multilateral, and that's the reason why we do things indirectly at times.

That's why we don't take on and toot at every windmill that's around. Our interest has to be in feeding people and helping sustain the health of children, for example.

I'd like to build on what the gentleman from North Dakota has started with respect to barter. I'm sorry he's gone, but I'm certainly in accord with his statements. The gentleman from Iowa, the former member, Mr. Cooper, and perhaps the gentleman from North Dakota, are responsible for specific authorization language in the 1985 farm bill that provides a specified, authorized amount for the trade of CCC stocks for continued feeding of our strategic petroleum reserve.

And when I visited with the former Chief of Staff at the White House about this issue, Mr. Regan, he looked at it in some detail, I gather, and I told him after visiting with the Department of Energy and the Department of Agriculture, that it all seemed to come down to Agriculture's concern about who would pay for those CCC stocks and that, it seemed to me, and he said it seemed to him because he said it's really a matter of bookkeeping, that seemed to me to be a ridiculous reason not to proceed.

Those stocks do not belong to the USDA, it belongs to the American people and the Congress speaks collectively for the American people. And we decided it was appropriate to encourage that kind of barter arrangement. Everyone was in favor of it except USDA, as far as I can tell, and there was an inertia that kept it from happening.

At the time, we were cutting off funding for the strategic petroleum reserve, at the time when a barter arrangement with Mexico and I would point out that all of the oil at that time that had gone into the strategic petroleum reserve was Mexican oil. Every last gallon of it.

All of the people who were supporting Mexico told me directly from the Finance Minister, the former Finance Minister, they were supporting. Oil-producing States were supporting, the farmers were supporting. Certainly humanitarian groups in this country were supporting, but we had no action on it and I don't understand the logic of the failure to have action. If worse comes to worse, USDA can own some of those barrels of crude oil, there's no reason you can't transfer ownership.

I'd like to submit questions for the record with respect to our A.I.D. food assistance programs to India and I'll just read them, but I hope perhaps we could get some response in writing to these questions and I'm not asking for your comments at this point.

The four questions are:

What are the projections for U.S. food aid to India through 1990? No. 2, are the requests for CARE CRS inclusive for food aid to India being met? If not, why not? No. 3, what care is taken to insure that the food and nutrition systems built up in the U.S. aid in the past are left in a continuing viable condition as we pull out? Please specify what can be done to insure their continuance in each Indian state. No. 4, have any large section 416 requests for India been considered? What's been the result?

I also have two questions in the area of what the new changes in the cargo preference requirements of the farm bill have been in their impact upon cost, impact on the Public Law 480 budget in the

question of sufficient shipping. I will present these in writing to, one case USDA and A.I.D. and one case to A.I.D.

And I would just like, in closing, to present some figures here primarily because of the audience, which I think is largely private voluntary organizations or their representatives and these are budget figures for our bilateral assistance programs and I'm going to give you what the cuts would be if we had a $500 million cut.

In fact, the Budget Committee, last night, decided on a $750 million cut for this line item for bilateral assistance programs.

Now, on bilateral development aid, the appropriations for 1987, frozen and extended would be, I'll just round it off, $1,420 million. The Executive request was $1,145 million. Now, if we had a $500 million cut, I don't have the $750 million, so you know it's going to be more than this and if Egypt and Israel are not exempted from an across-the-board cut, the reduction just with a $500 million cut is a 21.9 percent cut, talking, therefore, of a reduction from $1.4 billion to slightly over $900 million.

So, you're talking about a $750 million cut, you're talking about a developmental aid somewhere in the mid to lower $800 million.

Agriculture.—From a freeze level of $639 million, you're talking about a reduction from administration's request of our budget, to something about $320 million, Federal cut.

Health.—From $366 million, freeze level, again a $500 million reduction not exempting—not cutting back on Egypt and Israel, we're talking about something under $100 million.

Child survival.—Freeze level $75 million. The $750 million cut, Egypt and Israel not touched, we're talking about $75 million down to something like $40, $45 million.

So, I hope that everyone will understand the kind of cuts that are imminent under the budget that's been proposed and that, basically, is a freeze on developmental assistance and security assistance, the same cuts applied across the board so it is not to build one versus the other and I think the conclusion is, there is no way we can pass a foreign assistance bill in any circumstance, because of the lack of support for foreign assistance in this country, because of the controversy of all of the amendments that are contemplated and so, what we're really talking about is all of it being wrapped up into a continuing resolution.

And, if we're going to live with the budget that has been presented to us, we're talking about a $750 million cut in the line for foreign assistance, both humanitarian, disaster, all kinds of grief.

With that sobering comment, I hope it's sobering and will be motivating. I yield back, Mr. Chairman, thank you.

Mr. HALL. Thank you, Congressman.

Mr. POPE. Mr. Chairman, excuse me, since Mr. Dorgan and Mr. Bereuter have both brought up the issue of barter, I would like to make a very short statement. It again goes back to my original comment that there are very few mutual issues in this business of food aid and barter probably falls into that. In fact, we in the Department of Agriculture, realize full well our responsibility under the law on this barter business and we fully intend to meet our responsibilities.

Mr. HALL. Thank you, Mr. Pope. Thank you, Mr. Reese.

The second panel here is Mr. John Swenson of the Catholic Relief Services; Charles Sykes, Washington Office, director of CARE; Claiborn Crain, executive director, Agriculture Council of America.

If we could go in the order which I mentioned, Mr. Swenson, Mr. Sykes, and Mr. Crain, I would appreciate it and I'm sorry it's taken so long to get you on. As you can understand, a lot of members have a lot of questions, a lot of concerns about our food assistance programs. It's a very difficult and very complex process, but I think the panel before us was very helpful to spend some extra time.

If we could, on behalf of the members of the committee and yourself, we could keep your statements down to a minimum, OK?

Mr. SWENSON. Certainly.

STATEMENT OF JOHN SWENSON, CATHOLIC RELIEF SERVICES

Mr. SWENSON. Thank you, Mr. Chairman. I have a statement for the record and I'll just submit that and summarize. One point of the statement, we would just like to call to the committee's attention are the comments of the American Catholic Bishops in their economic pastoral, Economic Justice for All, which was issued last year on the problem of hunger throughout the world and the moral perspective which they give to it. I commend that to the committee's attention.

Mr. HALL. Thank you.

Mr. SWENSON. To get to more specific issues, we were asked to address the question of monetization under the new authority of the Food Security Act. We have provided detailed comments on several aspects of that.

Basically, we did support at that time and continue to support an increased authority for monetization, both under title II and section 416. We've looked at it as essentially as tripartite in usage, that is to say monetization to meet the cost of transport and distribution in feeding programs, complementary interventions such as oral rehydration and other child survival measures, as well as other measures which, combined with food programs, increase their impact and also monetization as a means to support development programs without any direct relationship to feeding programs themselves.

We have been disappointed at the slow pace in the generation of guidelines and would have appreciated an opportunity for greater input and substantive conversations with the Executive branch in their development. Having said as much, we can generally agree with the guidelines as far as they go.

Under those guidelines, monetization is directed, almost entirely, at support of food projects and as a statement of priority, we agree with that. We believe it would be counterproductive if a monetization authority were to become an active competitor, within either the authorities of section 416 or title II, to feeding programs themselves.

Simply put, in our view it is the direct immediate needs of those who are hungry which must be first served with food assistance efforts. So, keeping that in mind and recognizing monetization as a resource in addition to—the principle of additionality—in addition

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to food for feeding hungry people, we believe the guidelines are too restrictive.

The Food Security Act certainly provides for a broader application—the guidelines provided by A.I.D., for instance, have essentially a percentage test. The 5 percent ear-mark was an attempt specifically to obviate that need by making monetization available from the total worldwide appropriation so the feeding programs wouldn't suffer and that monetization programs, at even 100 percent level, if that's appropriate, could be used to support development programs.

Indeed, at the present time, given the generally depressed commodity prices and shipping rates, it seems clear that the budgetary provisions of both section 416 and title II are adequate to meet all demands for direct distribution programs, monetization to improve and enhance those programs and in addition, to support a respectable level of monetization to fund nonfood related development projects.

We would just note that the cautions raised in the guidelines about possible disincentives are well taken and we, for our part, have adopted internal policies that will carefully monitor any possible disincentive effects in monetization we undertake.

We are disappointed that A.I.D. is distancing itself from transactions of monetization. Basically, they want the PVO to do the sale. We never looked at it that way and indeed, our anticipation at the time of the Food Security Act was that we would find an active partner with the expertise of the A.I.D. local missions in helping with the sales. Indeed, our past experience with monetizations in an emergencies was tripartite. That is A.I.D., the local purchaser and the PVO.

We would not like to see A.I.D. put itself at such a great distance from these transactions.

There's been a recent action in the Senate on monetization, S. 659. We have very serious reservations about some of the provisions of that bill and those are included in the statement so I won't bother to go through them at this point, but will be happy to answer any questions.

In terms of policy reform or, if you will, structural adjustment, we have been approached already about possible participation in the food programs associated with those measures and we recognize the complexities there, and also recognize that, while there may be need for reforms, there are other issues as well. But however desirable economic reform aimed at growth and employment generation may be, growth doesn't necessarily lead to equity. The social costs of these structural reform programs, especially among poor populations who are the most vulnerable now and marginal populations who may be driven into poverty, could be very severe.

For our own part, we stand ready to participate in such programs under certain conditions. In so doing, however, we will wish to assure ourselves that the overall design of the adjustment program, as worked out between the cooperating country and the international institutions, makes adequate provision for both growth and equity. Palliatives in the form of food or anything else are no substitute for realistic and compassionate concern for the poor.

Thank you, Mr. Chairman.

Mr. HALL. Thank you.

[The prepared statement of Mr. Swenson appears at the conclusion of the hearing, see p. 65.]

Mr. HALL. Mr. Sykes.

STATEMENT OF CHARLES SYKES, ASSISTANT EXECUTIVE DIRECTOR, CARE, REPRESENTING THE COALITION FOR FOOD AID POLICIES AND PROGRAMS

Mr. SYKES. Thank you, Mr. Chairman.

Today I am representing the Coalition for Food Aid Policies and Programs, which is the coalition of six nongovernmental organizations, private voluntary organizations and cooperatives, which include the Adventist Development and Relief Agency (ADRA), CARE, Land of Lakes, National Cooperative Business Association, SHARE, and World Vision Relief Organization (WVRO), all of which collectively have over 100 years of experience in the management of food aided programs. The programs and projects involving food aid of all our members have very definite educational, health, and economic objectives. In other words, these programs are not undertaken in isolation as just the distribution of food.

Having said that, Mr. Chairman, I'd like first of all to begin this testimony by bringing to your attention the recent IFPRI—International Food Policy Research Institute—projections on food aid through 1990. In its most recent annual report, IFPRI indicates that by 1990 food aid needs will more than quadruple, as compared to 1980 when they were projected at 9 million metric tons. It is estimated that 43 percent of that shortfall, which has to be covered by food aid will be in sub-Saharan Africa. Accordingly, I'd like to go right into the President's Initiative for ending hunger in sub-Saharan Africa.

We noted in point 3 of the President's Initiative that he proposed that U.S. food assistance programs should stress production incentives for recipient governments, communities, and individuals to reinforce economic reform and productivity. We assume that, after the U.N. special session on Africa last year, a substantial number of countries are already committed to this type of reform, based on the support and promise of support from donor countries, particularly the United States.

It's our view that in carrying out effective food assistance programs in sub-Saharan Africa, at the community and the individual levels, private voluntary organizations and cooperatives, both U.S. and indigenous, are going to have to play a major role in this activity because this is where their links are, and this is where their programs and activities take place.

It is also clear that there will have to be government-to-government food aid programs to cover the shortfalls in the net availability of food not there as a result of declines in local production and the absence of hard currency to make commercial purchases. I think it's worth mentioning too, that we don't underestimate the need for other provisions in the initiative, such as the IDA replenishment of which some 45 to 50 percent is earmarked for sub-Saharan Africa.

We don't underestimate the need for a clear and responsible debt policy to be included. In other words, although we're looking at the food aid element here, we do recognize that it has to be integrated with other measures if it is to be effective.

Again, I'd like to reiterate what Mr. Swenson has mentioned already about the question of guidelines. The administration witnesses have indicated that the guidelines, with reference to monetization in particular, have a particularly important role to play in sub-Saharan Africa. The administration witness indicated that the guidelines were shared. That's true. The guidelines were shared, only after the fact, and we would like to be involved in helping in the formulation of such guidelines.

We believe the guidelines have been closed down so that any number of standing proposals that voluntary organizations and cooperatives have now have been closed down as a result of the restrictions on 100 percent monetization. We have eight to nine highly effective proposals linked to village water supply systems and agricultural development, which are well-documented and linked to 100 percent monetization in parts of Africa and Asia. These proposals have been put on a case-by-case basis.

We would certainly like to have the same flexibility and fast track procedures used in the section 416 sugar quota compensation program. That program involves the distribution of some $289 million worth of commodities to over 30 of the poorest countries in the world. I'll just mention that the PVO and cooperative proposals are significantly smaller, but if we could have these fast track procedures introduced, as in the sugar quota program, it would be very, very useful.

I would like to also mention the caution which was mentioned with reference to monetization. The collective experience of the nongovernmental organizations, in dealing with scheduling, marine claims, bills of lading, sales, purchasing, and procurement of commodities, would certainly stand them in good stead with reference to conducting discussions with cereals boards in some of these countries and effectively transacting small monetization projects without any difficulty.

I might add that internally it is our view that it is important that we coordinate work with the A.I.D., the Embassy, and the representatives of the Foreign Agricultural Service in those countries in working out the pricing of commodities. There's no lack of experience in this area amongst quite a few of the organizations.

In conclusion Mr. Chairman, the IFPRI, the FAO, and USDA food aid needs projections give the coalition some reason for concern. I hope that when 1990 comes around, we can look back on these hearings as having left their mark with reference to how we sped up and accelerated our response to these projected needs.

Thank you for the opportunity to appear before the committee and I will be glad to answer any questions.

Thank you.

Mr. HALL. Thank you.

[The prepared statement of Mr. Sykes appears at the conclusion of the hearing, see p. 71.]

Mr. HALL. Mr. Crain.

STATEMENT OF CLAIBORN H. CRAIN, EXECUTIVE DIRECTOR, AGRICULTURE COUNCIL OF AMERICA

Mr. CRAIN. Congressman Hall, other members of the committee, it is indeed a privilege to be here. I appreciate the opportunity to speak to the issue of Third World development programs.

The Agricultural Council of America comes from a little bit different direction than some of the other groups that have been represented here today. Mr. Leland talked about he hated being crass on some of these issues, talking about the strategic importance of Haiti. Let's set aside some of the humanitarian concerns, set aside the very deep knowledge and belief that the first and foremost part of any of these programs as has been said is to feed the hungry.

But if you look at our own self-interests a little bit, our self-interest is very well served if these programs are run properly and in a cooperative nature.

The Agricultural Council of America is an umbrella organization made up of what I call turn row farmers all the way across the spectrum to corporate executives of large corporations, all with a stake in agriculture. Many of our members come from both Mr. Dorgan's and Mr. Bereuter's districts. They are as compassionate a people as you will find anywhere. Farmers must also look to their own livelihoods and they feel very strongly that their future is tied in that of the Third World. If we are to build additional export markets, they will come from the Third World.

Several things I would like introduced into testimony today. One would be a list of the trustees of the Agricultural Council and the board of directors to show the breadth of the membership of the organization. Another is a summary of our program that we feel helps both the Third World and the American farmer and the American economy. Last is a paper on the Economic Growth, Agricultural Trade and Development Assistance underlining with good solid research from the Economic Research Service, USDA, the importance of development in the Third World and what it means to U.S. agriculture.

We have seen reports, heard testimony, read in the papers that all of a sudden we have too much food, that we've got a surplus. The world no longer needs the United States extra production. From some of the discussions we've heard here this morning, we know that that's not true. Our Under Secretary for International Affairs Daniel Amstultz testified on May 20 before the U.S. House of Representatives Government Operations Committee that there was not unfilled demand in the world, but unfilled latent demand.

We feel very strongly that programs like monetization and broadening of the authority to use monetizations will help turn some of that latent demand into real demand.

When the president of the Agricultural Council of America Orville Freeman was Secretary of Agriculture, they used what they talk about as an action triangle. It started with humanitarian relief, included economic development, and it concluded with commercial export sales. It's in the self-interest of the United States for these developing countries to gain that economic stability for the people in those countries are consumers and not just aid recipients. That helps them. That helps us too.

One of the problems we seem to have is getting not only groups to work together, but Government agencies to work together. Sometimes our A.I.D. missions and our Agricultural FAS officers overseas may not deal with each other unless they're invited to the Christmas reception at the Embassy.

I say this with no disrespect for people in these missions. They have tough jobs, they're understaffed for the responsibilities that are put on them. I know particularly the Foreign Agricultural Service continues to have additional duties listed at the same time that their staff is being cut. We all realize the budget burdens that Congress is under. You, too, are being asked to do more with increasingly less.

That's why programs like monetization makes so much sense. You can move these commodities into world markets as cheaply as you can sit there and pay storage on them and we're sitting here paying storage on them right now. I think that—I don't have the figures on hand for the storage bill, but it's well over $1 billion a year just in storage payments, storage and handling payments alone.

So that's not an outlay. You're recording that cost in a different column.

The PVO's, the cooperatives, the grain commodity organizations all contain a tremendous amount of expertise. We feel that pulling together with USDA, A.I.D., working closely with these groups, we can get a better response to make the most use out of what we have available to us and get some of these programs moving.

I hear reports of monetization proposals. They're discouraged at the country level, at the A.I.D. mission level. They never even make it to Washington. I was told about one situation yesterday of a proposal that was proposed in January. It got to Washington in May for consideration. None of these things are simple and I don't mean to imply that they are, but you can set deadlines and get things done.

I served on the staff of two Congressmen and a Governor and I know it works the same with Orville Freeman. When they tell me to get something done, they're not interested in 15 excuses on why it can't get done. They want it done.

If the pressure comes from the top, if it comes from the Congress, if it comes from the President, if it comes from the Director of A.I.D., from the Secretary of State, from USDA, we can all be amazed on what can be done in a short amount of time.

I'll be happy to answer any questions. That concludes my testimony.

[The prepared statement of Mr. Crain appears at the conclusion of the hearing, see p. 79.]

Mr. HALL. All three of you talked about monetization and of course we're very interested in it. We've asked a lot of questions about it. A.I.D. and USDA seem to be reluctant to move on these things quickly.

We've talked about the guidelines. What is really the stumbling block? What are the stumbling blocks? Are there two or three things that need to be done to move this thing along this monetizing?

Mr. SWENSON. Well, I can only speak from our experience. After much travail and, of course, if you're on the outside looking in and waiting for approvals, it's always going to seem long, I guess, under any circumstances. But, in rather different circumstances, we have got now eight monetization transactions in one form of implementation or another and, you know, some of these go back a fair amount. The approval process can go from very rapid, in the case of one country where there seems to be a greater political will to do the transaction, to many, many months where there wasn't a driving policy concern, as it were.

Putting the best construction upon it, it may be that the Interagency groups are new to this as well. I think that, and indeed there was, a real delay before the guidelines, initial guidelines were issued. They were withdrawn and it was only last week that I saw the final copy of the guidelines now in effect. I would hope that now that there's a piece of paper, that there's a document which outlines procedures, no matter how restrictive we believe it may be, that this thing can now move.

I couldn't tell you where a particular stumbling block is. We get, I guess, the same answers that you do, that it may be the conflicting interests of particular agencies on the Approval Committee. It may be the newness of the process, the reluctance to move without guidelines. A variety of these things; but as the more obvious stumbling blocks like the absence of guidelines fall away, I would hope we could move forward.

Mr. SYKES. You will recall in the Food Security Act of 1985 that the law established monetization at 5 percent of the aggregate value of title II. Our coalition did not want to see title II converted into a predominantly monetization activity. Title II was clearly for humanitarian assistance and to promote economic development, education, health, and child survival programs. Therefore, it is difficult to understand how from this section of the law—section 207—that we could then narrow the commitment to exclude 100 percent monetization. This was certainly not our interpretation, and we have not seen in the report language any restrictive provisions that would treat 100 percent monetization as an exception.

The title I and title III programs are monetization programs. They've been in existence for years. There's no lack of experience on the part of the administration in conducting these programs. We have programs with other bilateral donors. CARE has a program with the Canadian government and the government of Bangladesh which provides daily employment to 60,000 women who maintain roads in rural areas. This is an example of 100 percent monetization.

And that reminds me of an earlier statement by the administration witness that somehow the monetized commodities don't reach needy people. In the case of Bangladesh where 90 percent of the population, according to the World Bank statistics, is below the poverty line, you have a 90-percent chance of reaching someone who's needy. Many of these countries have ration systems, and these are not to be found in wealthy neighborhoods. These are found in low-income areas in the principle cities. When the food moves through these channels, it has a very good chance of reaching needy people.

Mr. CRAIN. Just concurring with what was said, what I understand the guidelines on this sugar repayment or whatever you call it, the monetization guidelines are very streamlined and very workable. This administration has some good background in using dairy products early in this administration. It was very effective, they used it very well.

Sure there were bad examples through the years, there are cases where mistakes have been made. We've got that history and we can avoid those. In many cases, the cooperatives and PVO's are being told that in the field, if you come in with this proposal, Washington probably will kick it back so, why do we go through the effort of trying this.

There has to be a belief all the way up and down the line if there's interest in using commodities as a tool to help people and there has to be some encouragement.

In most cases, the proposals that I've seen use very little food and have a minimum effect on local markets, but a great effect on the local economies.

When Orville Freeman was on his first trip as Secretary of Agriculture, he visited with a small town mayor in Pakistan. Freeman asked, "What do you need most right here in this town that will help you?" The man said, "We need a school." Orville was thinking about the mounds of wheat with farm groups on one side and President Kennedy on the other who had given him orders to do something about it. Freeman asked the mayor if he had workers to do the job and he said, "Yes." Freeman said, Can you pay them with wheat," and the guy said, "You bet." The rest is history. The school was built. The surplus commodity was removed from the market here and the Government stopped paying storage on it.

That's a very small example, but there's thousands of them out there.

Mr. HALL. Mr. Bereuter, questions?

Mr. BEREUTER. Thank you, Mr. Chairman.

Gentlemen, thank you very much for your testimony. I do have about two, maybe three areas to go into.

Mr. Swenson and Mr. Sykes, you both mentioned Senator Melcher's bill or Congressman Panetta's bill, which I think is exactly the same and, Mr. Swenson, you've said you have reservations, "serious reservations" is what I think you said, and Mr. Sykes, you seem to give it strong, maybe unqualified support, so we seem to have a difference of view here.

On your part, could you be a little more explicit, Mr. Swenson, about your reservations to start with, please?

Mr. SWENSON. Yes. Our reservation—well, our comments extend, I think, mainly to three parts of the bill. One being the doubling of the floor level on monetization, that is the mandating of monetization. We did, at the time of the passage of the Food Security Act, favor a floor level on the grounds which I think have proved quite correct subsequently; namely, that there was such a record of inactivity on monetization requests prior to that, that without some sort of mandated level nothing would get done.

We are inclined to doubt that a doubling, coming so soon after the passage of the act, is warranted. I mean, is there a track record for it? We ask the question.

We also are reluctant to see pushing for a doubling of the authority coming so soon after the passage of the original act and would hope that this wouldn't be the beginning of a trend that would set up just that competition between funding or the possible competition between funding and programs more associated with distribution that we think really must be avoided.

We would point out that the 5 percent is after all a floor. There's nothing in principle at least, given the will in the Executive branch, to go beyond that level. If prices and other factors permit, there's nothing in the law, as we read it at least, to prevent it from going up to 25 percent, if that's appropriate.

We also note that the two criteria that the bill sets up, essentially distribution and transport and more general development programs, is something that, again, we endorse both uses of in monetization. We think that it must be clear however, that while we agree in general with the thrust of the guidelines that priority ought to be given to support for ongoing food programs. These are feeding people to whom we have an established obligation and that is something that we should not jeopardize. We would be reluctant to see either section 416 or title II as just another funding mechanism which may well drain support away from development assistance funding, dollar funding, not local currency funding, as an excuse for lower appropriations.

We think that monetization provides a complementary resource, which may or may not be appropriate in given circumstances, but it should be seen as complementary to development assistance programs.

Finally, as for the response time, we're very sympathetic. We think that both participation in the formulation of the guidelines and that 45-day response time are appropriate. We would only hope that putting a straight approval or disapproval on the 45-day period would not result in wholesale disapprovals, inertia being what it is. Those are the comments I have.

Mr. BEREUTER. Thank you. I should end with just one more statement——

Mr. SYKES. Would you like me to—we did have some differences here, and I thought that's what you wanted to bring up.

Mr. BEREUTER. Yes.

Mr. SYKES. Well, we strongly support both the Panetta and Melcher provisions, which are included in the trade bill on the one hand and as free standing legislation—S. 659—in the Senate. We think that raising the level of monetization to 10 percent in section 416 is a very positive move. We have felt tremendous inertia in even getting to the 5 percent, not for lack of proposals, but because the guidelines limitations are being arbitrarily imposed.

We know the section 416 commodities are transient, so to speak, the ones held by the CCC. It's not a program on which one bases long-term programming, multiyear programming is beyond 3 or 4 years.

The 45-day review provision for response, we believe to be extremely important. We've had gestation periods on proposals that have exceeded 1 year in some cases.

And finally, we would like to reiterate the support we have for the 100 percent monetization provision, which is very, very important for not only the PVO's, but also the cooperatives.

Mr. BEREUTER. Thank you. I would like to tell you that I am particularly interested in using monetization to increase local credit for single producers and microenterprises through local banks or cooperatives that have been established by them and if you have any experience or suggestions on this, I would be interested in receiving them.

May I go to a last point because we're about to have to go. There is a bill introduced, which we introduced actually, called FAIR. It's introduced by Senator Symms and Congressman Boulter and others and your organization, Mr. Crain, is among the most influential members organizations, that are supporting it. This bill is reacting in part to a very inappropriate loan, a $350 million multilateral loan to Argentina last year that should have never happened. Because of the contrary direction the executive directors had, failure within the governmental system here in consultation with USDA and so on, the impact of the bill on our multilateral development programs would be, for example, to shut off all developmental assistance to African countries that wanted to grow feed grain to produce and feed their domestic markets and enhance the dietary availability for their citizens. That would be the impact of it.

It will give agricultural organizations an incredible moral black eye. I don't understand why organizations would want to be supportive of it. So, I have given them an alternative to look at and the alternative I put in the MDB bill simply says that when loans are used for export production or enhancing the exports of products that are in surplus, then the executive director must vote no and work against it.

So, the difference is in stopping loans for producing more feed grain and soybeans in Brazil and Argentina, where those are clearly our export commodities on one hand, but not stopping assistance to an African country that would grow a particular type of feed grain. So I would hope that if the organizations that are agricultural and others that support FAIR, really take a good look at whether or not what they want us to do is to end loans that are contributing to the export surplus in the world, as opposed to simply shutting off basically all kinds of agricultural assistance to all countries in the world that cannot feed their own people and that is the impact of the ultra Symms bill as now drafted.

Any brief reactions or subsequent reactions would be welcome, but we have to run as soon as the Chairman bangs the gavel.

Thank you, Mr. Chairman.

Mr. SWENSON. We share your concerns over that, as I testified before the Banking Subcommittee. Several of us maybe do not make the judgment, but when you start trying to tie all the strings from up here, you're going to get into problems that hurt American agriculture far worse and what we need is a vast improvement over that legislation.

Mr. SYKES. Could our written statement, Mr. Chairman, be entered in the record? It was late in arriving last night.

Mr. HALL. Yes.

Mr. SYKES. We'd appreciate it. Thank you.

Mr. HALL. Thank you.

Thank you again for coming and thank you for the good work your organizations are doing.

[Whereupon, at 12:45 p.m., the hearing was adjourned.]

[Material submitted for inclusion in the record follows:]

PREPARED STATEMENT OF THOMAS REESE, DEPUTY ASSISTANT ADMINISTRATOR AND COORDINATOR, BUREAU FOR FOOD FOR PEACE AND VOLUNTARY ASSISTANCE, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT [A.I.D.]

Mr. Chairman, members of the Select Committee, I appreciate the opportunity to discuss with you the current status of food aid as we at the Agency for International Development attempt to promote and implement more innovative programming.

The Food Security Act of 1985 represented a watershed piece of legislation for Food for Peace. Thanks to many of you here, this legislation is replete with new opportunities. I welcome this occasion to report on the Administration's implementation of this new law. We have taken seriously the need to respond quickly to implement this new legislation. I will summarize our progress briefly:

- Since the Farm Bill incorporated a number of new departures in the area of food assistance, guidance had to be developed within the Executive Branch for our field offices overseas. This process was largely completed in early CY 1986. The final step, issuing guidelines on Title II and Section 416(b) monetization, was just completed a few weeks ago.

- To furtner explain the new legislation, we convened a major conference in Annapolis in February 1987. This also helped to define the new directions we are taking. The over 120 participants included A.I.D. senior field staff, representatives from other USG Departments and Agencies, PVOs and the private commercial sector.

- In view of the positive response to this large conference, we held a series of three Mini-conferences for PVOs and A.I.D./Washington officers in May 1987;

- We are currently about to complete the design of a new project which will provide technical assistance to field missions to improve food aid strategies as well as implementation of programs in response to this new legislation.

- We plan to fund a three-year follow-on project to our food needs assessment efforts beginning in FY 1988. We will make a concerted effort to assess food deficits within countries.

- And finally, we are actively investigating with the PVOs means of covering the mounting costs of program administration. As part of this effort we are redesigning our existing projects (Enhancement and Outreach) which offer dollar support to food programs in order to meet the needs more effectively.

I would like to run down the statistical measurements of our progress to date. We are doing reasonably well, this year, in meeting the Congressionally mandated earmarks. The areas where we are having more difficulty, reflect in large measure the serious problems which must be overcome in mounting targetted feeding programs in some of the least developed areas in the world.:

In the area of Title I programs we have done particularly well:

75% of Title I is mandated to go to countries that meet the I.D.A. loan criteria. ($790 per capita for 1987). We will exceed this percentage in 1987 (82%).

10% of Title I resources are to be reserved for Title III programs. This year we will exceed this minimum.

Under the Title I Sections 106/108 Private Sector Lending Programs:

- We are currently at 5% and hope to meet the 10% requirement for Section 108 ($83 million in 1987). We also expect to meet this 10% minimum in 1988.

- We also hope to meet the additional 15% local lending requirement for Section 106 in 1987.

Under Title II, we have made the following progress:

The minimum tonnage requirement for Title II this year is 1.9 million metric tons. We will meet this level.

Unfortunately, we do not expect to meet the Subminimum requirement of 1.425 million metric tons to be provided through PVOs, cooperatives, and the World Food Program. This is due to the inherent difficulty in mounting new targetted feeding programs. We will work towards meeting this requirement in FY 1988.

There is a minimum requirement that 5% of the Title II Subminimum be reserved for monetization. This would require $11.9 million to be monetized in FY 1987. To date we have approved $8.3 million in projects; an additional $3.7 million are pending. As you can see, we anticipate being near or at the Congressional target by the end of the year. I would like to point out here that we are also

doing $8.1 million in cooperative monetization in addition to the partial monetization by PVOs. Thus our Title II monetization will total over $20 million in FY 1987.

75% of the value of non-emergency Title II commodities must be processed, fortified and /or bagged. We recently determined that we will fall short of this requirement because of an exceptionally large approval of bulk wheat to the Philippines.

We are also making progress -- though a bit more slowly -- on the expanded Section 416(b) requirements:

It is required that 500,000 metric tons of grains and oilseeds be programmed each year under Section 416(b). We will exceed this requirement by a factor of two -- about one million tons will be programmed.

Parallel to the Title II legislation, 5% of the value of Section 416(b) commodities provided to PVOS and cooperatives is to be monetized. We will not meet this requirement. Only slightly more than $1 million will be monetized under Section 416(b). At the same time, we have had a lack of monetization proposals.

Under the new Food for Progress provision, up to 500,000 metric tons is to be programmed annually of which not less than 75,000 metric tons is to be provided under Section 416(b). To date, we have programmed 61,000 metric tons under Section 416(b) -- Guinea (40,000 mt) and Madagascar (21,000 mt). We had set a target for Food for Progress of 200,000 mt for 1987, but to date we have not had responses commensurate with this level. We pursued Food for Progress possibilities in 16 additional countries this year but to date we have been disappointed in the number of responses. We suspect that this is due to the high volume of Section 416(b) being provided under other programs.

I would like to make special mention here on our recent progress on monetization. We issued policy guidelines on partial monetization early this Spring. These provide the PVO community and our field missions with general rules of thumb for sound design and implementation of partial monetization programs. Our plan is that the focus of grant food aid should be used for direct feeding of needy individuals. It is our general principle that in the majority of cases, monetization be reserved for ensuring adequate transportation and storage of project food aid and for complementary inputs which enhance the objectives of targetted food aid projects.

Of course, we will continue to consider full monetization for development as we have in the past. In this regard, we are well aware of the important programs undertaken by the cooperative community in using food aid in support of longer term agricultural development in the Third World.

In addition to the Guidelines, we will issue a field manual on design and implementation of monetization for use by the PVO community and A.I.D. field missions. We expect it to be available by the end of the Summer. This is intended to be a "how to" manual and will address such issues as pricing, selection of commodities, accounting procedures, etc. We expect that this manual will greatly facilitate implementation of monetization programs. I would add here that this is just one of the many efforts we are making to encourage submission of monetization proposals by PVOs to meet the 5% requirement.

Having presented the bare bones of our accomplishments in this full first year of implementing the Farm Bill, I would like to flesh out some of our concerns over the major substantive issues we have encountered.

As outlined above, we are pursuing a wide array of ways to use food aid to meet the objectives of the food aid legislation, e.g., humanitarian uses, development, foreign policy, and export expansion. As you here are aware, these multiple goals can sometimes conflict.

During the recent drought emergency, we were concerned with providing enough food at the right time. We developed during this time and have been applying with increasing success since, a simple but effective means of estimating emergency food needs. Now, in view of agricultural abundance in the US, and in other exporting countries, as well as in the recipient countries themselves, we are investigating possible problems of overprogramming food aid in selected countries.

This problem may be especially critical in Latin and Central America. However, we are also conducting analysis in selected countries in Africa and Asia. We are particularly concerned at the Agency for International Development about displacing commercial sales or flooding local markets with subsidized foods and thereby disrupting local production and marketing.

This situation confronts us with a dilemma: On the one hand commercial markets may not be able to absorb additional food without negative effects. On the other hand, social indicators in most of these countries are woefully out of line. Infant mortality rates, child death rates, and percent of undernourished children are all indicators that suggest these people need greater access to food. The problem is to identify needy groups and even individuals and get food to them. What is required are well-planned PVO food aid programs.

One important instrument which responds to this situation is our Child Survival program. We are encouraging the integration of food aid into this major health intervention. A second effort which we are making to address the conundrum that I have just described is the Presidential Initiative to End Hunger in Africa which was announced on March 11, 1987

This Initiative is broad-gauged, incorporating both food and non-food components. It recognizes that hunger is a direct consequence of poverty, that is, lack of access to food supplies. And furthermore that the declining economic situation creates conditions of poverty which could result in famine if drought and further economic dislocations recur. The Initiative establishes a base for the common, long-term goal of all U.S. economic programs and policies in sub-Saharan Africa, that of ending hunger through economic growth, policy reform, and private sector development.

In terms of the best use of food aid resources as part of this Initiative, several possible components are currently under discussion:

1) One is to address national level food deficits and ease debt burdens by offering program food aid on grant terms to low income countries in Africa which are undertaking viable economic reform programs. In essence this would mean

converting concessional loan programs -- that is Title I -- to either Title III or Title II, Section 206. In this way, the USG would cover the ocean freight costs, the commodity costs, and in the case of Title III, provide relief for past Title I loan obligations.

However, in spite of the enormous debt burden many African countries face, program food aid can only address part of the problem. In good years, such as last year, when harvests are good and stocks are high, the need for more food to be sold on commercial markets is limited.

2) A second essential component of the initiative would seem to be an expanded use of well-targetted feeding programs which reach populations which do not have access to adequate food supplies -- in spite of adequate national level supplies or even surpluses. This may be particularly critical in countries implementing programs of structural adjustment where purchasing power is likely to be severely affected as reforms take hold. As one response to this need we are taking a new look at the potential uses of time-limited primary school feeding programs in the African context. A second possible approach is feeding programs which are targeted at poor communities.

In order to expand targetted feeding in Africa, we are exploring new ways to meet the growing costs of administering these programs. In Africa in particular, the necessary physical and administrative infrastructure to mount and sustain these programs is generally lacking. We must continue to work with the PVO community and host governments to confront and solve this problem together.

3) A third component of the Initiative which is under consideration is the use of trilateral arrangements. We have sponsored such programs in past in emergency situations. In these cases, the U.S. provided needed commodities to country A, which in turn provided domestically-produced surplus commodities to country B. The key benefits of this type of transaction are to encourage trade links between countries, alleviate debt burden in the supplying country, and provide the preferred commodity in the importing country.

In summary, we believe that the Food Security Act has provided us with vital instruments for undertaking new and innovative food aid programs. I have attempted today to summarize the Administration's accomplishments in this area to date and to share our ideas for future priorities in food aid programming. We believe that there is enormous potential to work together with the PVO and Cooperative communities, the private

commercial sector, as well as with developing country governments and citizens to redress food imbalances in the world.

Mr. Chairman, I appreciate this opportunity to share information with you today and would be pleased to answer any specific questions you may have at this time.

Responses to Questions for Thomas Reese

Questions submitted by Hon. Tony P. Hall

Minimum tonnage requirements

Question. Given the difficulty in reaching legislated minimum tonnages of title II commodities, are you rethinking policies related to your current monetization guidelines so as to encourage PVO's to submit additional proposals?

Answer. A.I.D. believes we will reach the title II minimum tonnage in fiscal year 1988, as well as the monetization of 5 percent of the commodity value of the title II regular program. Rather than revise our monetization guidelines, we are working with the voluntary agencies to assist them with their monetization proposals and problems. We have, for example, just completed a "how to" manual for title II monetization for use by PVO's and cooperatives.

Presidential initiative to end hunger

Question. What new grant programs can be expected this year and in fiscal year 1988 as part of the President's March 11 initiative to end hunger in Africa? Through what mechanism will this conversion of loans to grants occur?

Answer. We are currently developing interagency guidelines as part of the President's March 11th initiative to end hunger in Africa. A.I.D. is recommending to the interagency group (DCC) that we consider title II, section 206 and perhaps title III to a lesser extent as especially appropriate for the African Initiative. We are preparing specific guidelines to be used by our Africa field missions in furthering use of food in support of this initiative. In addition, we are working to develop more effective targeted food aid programs (child survival, school feeding) and, explore, where appropriate, trilateral food swaps.

African initiative guidelines

Question. When are guidelines to be issued to carry out the provisions of the initiative? Please provide the committee with a timetable for action of the food aid proposals.

Answer. We are pleased to note that the Africa initiative guidelines should be available by the end of fiscal year 1987. We have already made a modest start in 1987 in tailoring a few of our more recent food aid decisions in Africa to meet the specific objectives of the Africa initiative. We hope to see many more Africa initiative food aid proposals under way in fiscal year 1988 and fiscal year 1989.

Targeting section 416(b) programs

Question. Are the section 416 programs resulting from the sugar quota compensation program targeted to the poorest and most malnourished populations in the recipient countries?

If the section 416(b) commodities are sold under this program, who benefits from the local currency generated by the sale?

Answer. The section 416(b) sugar quota compensation programs compensate eight programs in Africa for a reduction in those countries' sugar quota. These countries are the Congo, Ivory Coast, Madagascar, Malawi, Mauritius, Mozambique, Swaziland, and Zimbabwe. The local currency generated by the sale of 416 commodities in these countries are used for a variety of Government programs, but in all cases for "* * * activities consistent for providing food assistance to needy people." I would note here that local currencies generated by the sugar quota program are not allocated to specific groups of development activities.

Famine early warning

Question. Does the famine early warning system mandate a response to assessments of impending food shortages?

Answer. The A.I.D. Famine Early Warning System (FEWS) is limited to selected countries in Africa. FAO complements this with a broader system throughout Africa. When either system encounters potential famine conditions in a country or region, it triggers an A.I.D. assessment of food needs. (This assessment is coupled with other investigations as necessary—health, water pollution, etc.). We have, for example, had intensive assessments this year in Mozambique and Somalia. Our field missions monitor food needs on a regular basis and request additional assistance as warranted.

QUESTIONS SUBMITTED BY HON. DOUG BEREUTER

Cargo preference

Question. Would you give a general update on how the cargo preference agreement (as contained in the 1985 farm bill) is working? The agreement called for increasing from 50 to 75 percent the amount of grain that would be handled on U.S. flag vessels. In return, cargo preference would not be applied to any of the commercial export promotion programs. What is the cost of this? Are sufficient ships available? What is the impact on the Public Law 480 budget?

Answer. Grant Food Aid—In the case of title II and section 416(b) programs, over 60 percent of the total tonnage was shipped on U.S. flag vessels for the 1986/1987 cargo preference year (April 1, 1986–March 31, 1987). The additional cost due to the increase from 50 to over 60 percent is estimated at $6.6 million. The Maritime Administration reimburses USDA for the incremental ocean freight differential (OFD) cost on all U.S. shipments above the 50 percent minimum—that is, the differential incurred in bringing the minimum from 50 to 60 percent.

Beginning April 1, 1987, the minimum U.S. flag tonnage requirement increased to 70 percent. To date, about 68 percent of the title II and 82 percent of section 416 commodities have been allocated for shipment on U.S. flag vessels. In view of this, we do not anticipate a problem in meeting the 70 percent minimum. However, we may have a problem meeting the 75 percent minimal requirement which becomes effective as of April 1, 1988.

The Maritime Administration reimburses the Commodity Credit Corporation (CCC) for the OFD cost of U.S. flag shipments above 50 percent. However, we are concerned that an overall increase may occur in U.S. flag rates as competition increases among U.S. carriers to meet the higher minimum requirement of 75 percent.

Title I—Under title I, U.S. flag vessels carried approximately 60 percent of the total of 5.3 million metric tons shipped under the program for the last cargo preference year. The additional cost of increasing U.S. flag participation from 50 to 60 percent last year is estimated at $17.7 million.

Through the first 3 months of the current cargo preference year (1987–1988), U.S. flag vessels will carry just over 75 percent of the 2.6 million metric tons shipped and we fully expect to meet the minimum of 70 percent for the entire year. To date, the additional cost of increasing U.S. flag participation from 50 to 70 percent has been about $12.9 million. However, we expect that the OFD rate may increase during the August–September peak period, resulting in a significant budgetary outlay to cover that 70 percent flag requirement.

We estimate that the cost of title I cargo preference to the Department of Transportation this year could exceed $26.5 million. Next year, when the 75 percent minimum is in effect, the cost will increase accordingly.

U.S. food aid to India

Question. What are the projections for U.S. food aid to India through 1990?

Answer. The current anticipated food aid budgets for India are as follows:

Title II program levels for India

	In millions
1987	$90.1
1988	84.0
1989	76.9
1990	75.0

The 1987 food aid budget is high due to the provision of $6.9 worth of 1988 vegetable oil in fiscal year 1987.

For many years India has received the largest title II program in the world. Projections are that, subject to the availability of funds and commodities, the Public Law 480 title II India program will continue through 1990 at approximately $75–83 million per year with $57–60 million in food assistance provided to CARE and $18–23 million provided to CRS.

Food aid to India

Question. Are the requests of CARE, CRS, and CLUSA for food aid to India being met? If not, why not?

Answer. All the food aid requests, to our knowledge, for CARE, CRS, and CLUSA are being dealt with. The food aid requests from CARE, CRS, and CLUSA have been approved under Public Law 480, title II through fiscal year 1987. This is also the

case for fiscal year 1988, subject to the availability of funds and commodities. The CARE program is planned at 196,120 MT of food valued at $57.2 million; the CRS program is planned at 83,642 MT with a value of $19.9 million. The CLUSA allocation of 11,775 MT with a value of $6.9 million has been forward funded in fiscal year 1987.

Section 416 in India

Question. Have any large section 416 requests for India been considered? What have been the results?

Answer. Preliminary indications last year pointed to Government of India (GOI) interest in section 416(b)—either for milk products or vegetable oil. For a variety of reasons, neither product was available or appropriate for the type of programs desired by the GOI.

Food and nutritions systems in India

Question. What care is taken to ensure that the food and nutrition systems built up in India with U.S. aid in the past are left in a continuing viable condition as we pull out? Please specify what has been done to ensure this continuance in each India state?

Answer. A.I.D. is not phasing out food assistance in India. We have refocused our assistance to support the integrated child development system—a high priority for the Government of India. We have also indicated that where Indian states are having difficulty assuming school feeding costs, we would be willing to extend our phaseover of school feeding to the Indian state governments.

QUESTIONS SUBMITTED BY HON. BENJAMIN A. GILMAN

India food aid level

Question. What is being done to meet the recommendation of the Conferees on the fiscal year 1987 Continuing Resolution to halt the downturn in U.S. food aid to India and to move the amounts upward?

Answer. U.S. food aid to India is expected to remain at the $70–$75 million level through 1990. A.I.D. remains committed to supporting CARE and CRS activities in India.

School feeding in India

Question. What is the objection to continuing or expanding U.S. food aid to India's school feeding programs so long as U.S. agricultural surpluses are large? Is school feeding less desirable in India than in the United States, where School Lunch Programs are strongly supported?

Answer. A.I.D. has indicated to CARE India that we are willing to continue school feeding where there is need and/or where state governments are unable to assume the administration of local school feeding programs.

Title I in India

Question. What objection if any is there to providing title I food aid to India? Are there any title I food aid requests for India which are not being met? If so, what are they and why are they not being met?

Answer. In fiscal year 1987 the interagency group (DCC) considered title I food aid to India. According to the U.S. Embassy in New Delhi, the revival of title I food aid in India was met with considerable opposition in the Indian Parliament. Accordingly, the GOI did not request title I food assistance from the United States. In view of this, we do not expect the Government of India to request title I assistance in fiscal year 1988.

FOOD FOR PROGRESS PROGRAM

During fiscal year 1987 cables were sent to 19 U.S. Embassies/Missions to determine interest in the Food for Progress Program. The countries receiving this cable were: Bangladesh, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Indonesia, Jamaica, Jordan, Kenya, Mauritius, Morocco, Peru, Philippines, Senegal, Somalia, Tunisia, Zaire, and Zambia.

In general, the commodity supply situation was adequate in these countries this year. In addition to good local production in many, some of these countries have received grant food aid under the section 416 program for sugar quota offset purposes as well as regular Public Law 480 assistance. The section 416 program for

sugar quota offset purposes provided large supplies of food assistance to some of these countries.

With these good levels of basic commodities, many of these countries thus far have not pursued a Food for Progress Program.

PREPARED STATEMENT OF GEORGE J. POPE, ASSISTANT GENERAL SALES MANAGER AND ASSISTANT ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, members of the committee, I appreciate the opportunity to discuss with you the world food outlook and the Department's food aid programs.

World Food Outlook

In recent years there has been substantial progress in alleviating world food problems, although there is still much work to be done.

In fact currently the world has large stocks of basic foods; this is clearly demonstrated by the lov world prices for the basic grains such as wheat and rice. Production has been good in recent years in both the

developed world and the developing world. In fact, a major concern facing the United States agricultural community is the lack of markets for our commodities. The dramatic change in the food needs of Africa this year compared with just two years ago shovs hov quickly the "world food situation" can change. While ve and others are continuing to provided needed food aid to Africa, the quantities are greatly reduced in order not to displace and, therefore, harm African farmers.

Several examples come to mind of developing countries where the right combination of policies and capabilities have resulted in dramatic improvements in developing country food situations. Among these would be Pakistan, Indonesia, and India. This clearly shovs that successes are possible and that ve can continue to see improvements in the world food situation. However, we must realize that while ve and other donors can offer help, the developing countries, in the final analysis, must take the necessary actions themselves to make the difference.

Overall, for the past ten years annual global food production increases have been running slightly ahead of annual population grovth. With food production and population groving at nearly the same rate, other factors such as storage and distribution are also important components in meeting world food needs. The problems and constraints to attaining adequate food vary from country to country. Therefore, our tools to help countries deal with this need also vary. As ve have slowly learned about the process of economic development, ve have adapted existing programs and developed nev ones to make better use of our food aid resource. This process continued in the Food Security Act of 1985. I would like to briefly highlight some of these tools - both the older and the never ones.

Public LAW 480

The cornerstone of the U.S. food aid program is Public Lav 480 or the Food for Peace Program. In the more than 30 years this lav has been in existence, it has enabled the United States to meet emergency and short-term needs of hungry people around the vorld. Since 1954, the United States has distributed over $37 billion vorth of farm products to over

The P.L. 480 concessional credit sales programs under Titles I and III have been effective in economic development and in creating commercial markets for U.S. farm products. For this year, funding for this program is nearly

$929 million, which will provide long-term concessional financing for almost 6 million metric tons of agricultural commodity exports. Our budget request for 1988, $852 million, will provide nearly 6 million tons of food. Of course, the actual tonnage in any year depends on commodity prices which are variable.

The Title II donation program is designed to relieve both chronic, long-term food shortages in lover income developing countries and emergency food requirements arising from natural disasters such as droughts or floods, as well as manmade disasters. A large portion of Title II food assistance moves through U.S. private voluntary organizations, as well as the World Food Program. The fiscal 1987 Title II budget is $534.1 million, which will provide over 2 million metric tons (on a grain equivalent basis) of food donations. We have requested a program level of $535 million for the 1988 Title II program, which will also provide an estimate 2 million metric tons of food donations.

While the proposed P.L. 480 program level for 1988 represents a modest reduction from the amount available in 1987, ve expect that the total P.L. 480 tonnage that will be shipped in 1988 will be well in excess of the volume available in the early 1980s when programming averaged 6 million tons annually. In addition, the level of U.S. foreign food assistance in 1988 will be augmented by donations from Commodity Credit Corporation ovned stocks through the Section 416 program.

Section 416

Another food aid program authorized by Section 416(b) of the Agricultural Act of 1949, calls for agricultural commodities acquired by CCC to be made available under this program for carrying out programs of assistance abroad.

Thus far in fiscal 1987, CCC has committed almost 700,000 tons of grains, oilseeds and dairy products for shipment to needy people. Currently, CCC dairy stocks are almost fully committed and as such we do not anticipate entering into new Section 416(b) programs for dairy products. However, We are continuing efforts to enter into Section 416(b) agreements for grains. In fact, such commitments may reach 1 million tons this year.

Food Security Wheat Reserve

Another significant component of our food aid efforts is the Food Security Wheat Reserve. The purpose of the 4-million-ton Reserve is to guarantee the availability of wheat, the world's basic food grain, for humanitarian food needs under the P.L. 480 program. Up to 300,000 tons of wheat may be released from the reserve in any fiscal year for use under Title II, P.L. 480, without regard to the domestic supply situation, to provide urgent humanitarian relief in any developing country suffering a major disaster when the wheat could not otherwise be made available in a timely manner. Wheat from the reserve was used in 1985 to help meet the African famine needs, but the quantity used has been replenished and is available again if needed. The United States is, thus far, the only major food aid donor to maintain a physical reserve of grains for its food aid program.

New Programs

Food for Progress

The Food Security Act of 1985 authorizes a "Food for Progress" program through fiscal year 1990 which seeks to use U.S. agricultural commodities in support of developing countries that have made commitments to introduce or expand free enterprise in their agricultural economies. Under this program commodities are provided to countries that will work to implement private, free enterprise agricultural policies. Commodities provided under

the program would be in addition to any assistance a country normally receives from the United States. The program can be carried out with funds available under Section 416(b) or Title I of P.L. 480.

The first agreements under the program were signed with Guinea and Madagascar near the end of fiscal 1986. These agreements provided 30,000 tons of Section 416(b) rice to each country. While it is still too early to assess the impact of these two agreements, we are hopeful they will bring about agricultural reforms in the countries.

In Guinea, Food for Progress resources are being used to facilitate on-going agricultural reform, particularly in private sector rice pricing and market policy that should help stimulate agricultural production. In Madagascar, the program is intended to help implement broad policy reforms in support of increased private sector participation in rice marketing.

For fiscal 1987, 19 countries have been invited to submit proposals for the Food for Progress program. About half of the countries have responded and these proposals are being revieved nov. The maximum annual program level is 500,000 tons of commodities.

Local Currency Sales Initiative

The Local Currency Sales Initiative, under the authority of Title I, P.L. 480, is designed to generate economic growth through the private sector in foreign countries. To achieve this goal, sales of commodities for local currency under Title I of P.L. 480 have been reinstated. The local currencies, accruing to the U.S. government as a result of these sales, will be loaned to financial intermediaries in Title I countries, who will then lend these currencies to local private entities, primarily in the agricultural sector.

In fiscal 1987, we have signed agreements with Tunisia, Jamaica, Costa Rica and Sri Lanka. The total value of local currency financing in these four countries is $14 million. In addition, we are nearing agreement with other countries.

As we are beginning to implement this new program, we are hopeful it will prove an effective means to stimulate the private sector in food aid recipient countries. We must, however, be realistic that time is needed for programs such as these to take hold and begin to make a difference. In our understandable desire to help developing countries we may become impatient and too quickly dart from program to program. Rather we should be willing to stay the course and give these new initiatives time to work.

Additional Points

Finally, I would like to briefly comment on two issues which have generated a great deal of discussion and interest in the food aid community in the recent past, tripartite food programs and monetization.

Mr. Chairman, we in the USDA feel we must move very carefully in developing and implementing any new variations to our food aid programs. Experience, often bitter, has clearly taught us that new ideas, while appearing simple on the surface often become far more complex and difficult to implement in actual practice. All too often our rushing into new and exciting programs have created more negative than positive results. As you and your colleages are aware, we often had to learn the hard way to manage to potential for discentive aspects of food aid, problems with assuring adequate storage and distribution facilities, and asorbtive capacity of reciepient countries.

While we are sensitive to the positive use of tripartite food aid programs, for the reasons Mr. Reese discusses in his testimony, we also feel that serious questions must be addressed before we launch into major initiatives. Specifically we feel that except in situations of clear emergency, tripartite arrangements should only be considered when they will be both timely and cost effective. It makes little sense in an age of limited resources to spend more to move a needed commodity via a tripartite agreement when it can be shipped under a bilateral program. And, we have noted that while distances may seem small on a map, it is often much quicker and simpler to deliver the needed commodity directly from the United States.

We also support monitization when it is needed to assure the delivery and handling of the U. S. commodity being donated. However we note that there is already a major food aid program which is 100% monetized, Title I of P. L. 480. This program generates over $800 million a year in local currencies which are targeted for developmental efforts. We see several issues which need be carefully considered on the issue of monitization of donated commodities;

--Title II is designed to feed hungry people. To the extent that donated food is sold and the proceeds used for purposes other than to pay for shipping and handeling costs of distributing the balance, then hungry people will not be receiving food aid.

--We also see the potential for damage to the already established private sector in many developing countries if donated food is monitized indescriminatly.

--Finally, we remember problems in earlier years when large sums of local currencies actually became a drag on fragile developing economies.

Conclusion

In concluding, I want to again note that this Administration is committed to help meet the world's food assistance requirements, through both food aid and other activities to promote economic growth. The lower prices that have resulted from the changes made in agricultural commodity programs by the Food Security Act of 1985, combined with our long-standing food aid efforts, will provide us the food aid tools we need to meet that commitment. That concludes my statement, Mr. Chairman. I will be glad to respond to questions.

RESPONSES TO QUESTIONS FOR GEORGE J. POPE

QUESTIONS SUBMITTED BY HON. TONY P. HALL

Question. How does USDA intend to support the President's initiative to end hunger in Africa? Through what mechanisms will the called-for conversion of loan programs to grant programs occur?

Answer. USDA will provide support to the President's initiative through both its responsibility for the food aid programs as well as providing technical support through the Office of International Cooperation and Development which works very closely with AID. With specific reference to the use of grant rather than loan mechanisms for food aid in support of this initiative, the food aid decision-making group will be rsponsible for this conversion, which has already started. The legally authorized grant food aid mechanisms are Public Law 480 (P.L. 480) Title II, P.L. 480 Title III, and Section 416.

Question. How might the trilateral trade arrangements advocated by the initiative be increased in number?

Answer. A better understanding of the costs and benefits of possible trilateral proposals will both enable the decision-making process to act more quickly and allow development of better proposals. AID and USDA are jointly working on preparing guidance for the field on this subject which will expedite development of these proposals and better identify ones which are in the best interest of the United States.

Question. In order to meet requests for donated nonfat dry milk, wouldn't it be possible to recondition milk currently held in CCC stores through the use of generic certificates? If so, why aren't you using them?

Answer. No. The generic certificates are issued as payment-in-kind to participants in the Agricultural Stabilization and Conservation Service (ASCS) administered price support and conservation programs, who are due payments by the Commodity Credit Corporation (CCC). The use of generic certificates are not authorized as payment for services rendered, such as reconditioning of milk held in CCC inventory or supply of needed foodstuffs unavailable in stock.

Question. Are the Section 416 programs resulting from the sugar quota compensation program targeted to the poorest and most malnourished populations in recipient countries?

If the 416 commodities are sold, who benefits from the local currencies generated by the sale?

Answer. Section 416 programs for sugar quota offset purposes were offered to foreign governments as compensation for reduced foreign exchange earnings. In most cases the commodities are sold. Proceeds generated from the sale of commodities are allocated to activities to provide assistance to needy people as required by Section 416 legislation.

QUESTION SUBMITTED BY HON. BENJAMIN A. GILMAN

Question. What objection if any is there to providing Title I food aid to India? Are there any Title I food aid requests for India which are not being met? If so, what are they and why are they not being met?

Answer. There is no problem in principle to programming Title I assistance to India. We have not received a formal request from the Government of India for Title I assistance, although during the current fiscal yar we did investigate the possibility of a Title I program there. In the last 20 years, India's agricultural production has improved to the point that, except for vegetable oil, there are few commodities available under Title I that India needs.

QUESTIONS SUBMITTED BY HON. DOUG BEREUTER

Question. Have any large Section 416 requests for India been considered? What have been the results?

Answer. The Government of India has not made any large Section 416(b) requests. We in the Department of Agriculture are not aware of any large requests that have been declined.

Currently we do have an offer to the Government of India totaling $3.1 million outstanding under Section 416(b) for sugar quota offset purposes. We are in the process of developing this agreement.

Question. Would you give a general update on how the cargo preference agreement (as contained in the 1985 Farm Bill) is working? The agreement called for increasing from 50 percent to 75 percent the amount of grain that would be handled on U.S. flag vessels. In return, cargo preference would not be applied to any of the

commercial export promotion programs. What is the cost of this? Are sufficient ships available? What is the impact on the P.L. 480 budget?

Answer. Title I. For the cargo preference year 1986/87 (April 1, 1986–March 31, 1987) U.S. flag vessels were approved to receive slightly over 3.2 million metric tons of Title I commodities representing 60.2 percent of the total of 5.3 million metric tons shipped under the program.

The additional cost to the U.S. taxpayer of increasing U.S. flag participation from 50 percent to 60 percent last year is estimated at $17.7 million based upon 532.6 thousand metric tons of cargo at an average ocean frieight differential (OFD) of $33.24 per metric ton (MT).

Through the first 3 months of the current cargo preference year (1987/88), U.S. flag vessels have been approved to receive just under 2.0 million metric tons representing 76.5 percent of the 2.6 million metric tons shipped. It now appears that sufficient U.S. flags will be available to carry the prescribed minimum of 70 percent of all cargo for the entire year and we fully expect to meet that obligation.

To date, the additional cost of increasing U.S. flag participation from 50 percent to 70 percent has been about $12.9 million based upon 518.2 thousand metric tons at an average ocean freight differential of $24.90 per MT. We expect that the OFD rate may increase during the August–September period when demand for U.S. flag vessels is at its peak resulting in a significant outlay to cover the 70 percent U.S. flag requirement.

While the impact of the cargo preference agreement on the P.L. 480 Title I/III budget is negligible, as we continue to finance the first 50 percent of the OFD, the budgetary impact on the Department of Transportation (DOT) will be significant. We estimate that the cost to DOT this year could exceed $26.5 million. Next year, when the 75 percent U.S. flag requirement is fully operable, the cost will increase accordingly.

The major impact on the implementation of the Agreement has been the considerable staff resources required to working out an operable Memorandum of Understanding with DOT. Also, we continue to devote scarce resources responding to the numerous and increasingly frequent written and telephonic inquiries from the Maritime Administration concerning terms of frieight invitations for bids (IFB's) and charter parties.

Title II. In the case of the Title II, P.L. 480 and Section 416 programs, over 60 percent of the total tonnage was shipped on U.S. flag vessels for the 1986/1987 cargo preference year. Nearly 1.1 million metric tons, or 65 percent of the Title II, P.L. 480 tonnage, were shipped on U.S. flag vessels. About 367,000 metric tons, or 63 percent of the Section 416 tonnage, were shipped on U.S. flag vessels during this period.

The additional cost due to the increase from 50 percent to 60 percent last year in tonnage required to be shipped on U.S. flag vessels is estimated at $6.6 million. The Maritime Administration reimburses USDA for the incremental ocean freight differential (OFD) cost above 50 percent.

Beginning April 1 of this year the minimum U.S. flag tonnage requirement increased to 70 percent. To date, about 68 percent of the Title II, P.L. 480 commodities and about 82 percent of the Section 416 commodities for cargo preference year 1987/1988 have been allocated for shipment on U.S. flag vessels. We do not anticipate a problem, at this time, in meeting the 70 percent minimum U.S. flag requirement by the end of the cargo preference compliance year in Marcy 1988. There may be a problem in achieving compliance when the minimum U.S. flag tonnage requirement increases to 75 percent beginning April 1, 1988. This situation is exacerbated for the Title II, P.L. 480 program because of the additional requirement in the law that a minimum amount of the Title II tonnage must be reserved for shipment through the Great Lakes. This particular provision is controversial because of obvious objections from other port ranges about preferential treatment for the Great Lakes coupled with language in the law that actions taken to preserve the Great Lakes tonnage must be without detriment to any port range. A hearing on the Great Lakes issue is scheduled later this month before the House Subcommittee on Merchant Marine.

Even though the Maritime Administration reimburses CCC for the OFD cost of U.S. flag shipments above 50 percent, we are concerned that an overall increase may occur in U.S. flag rates as the minimum U.S. flag requirement increases to 75 percent.

In addition the complexities of the law have put a severe strain on the limited resources required to operate the Title II, P.L. 480 and Section 416 programs.

PREPARED STATEMENT OF JOHN SWENSON, CATHOLIC RELIEF SERVICES

Mr. Chairman, members of the committee, on behalf of Catholic Relief Services I would like to thank you for the opportunity to testify today. Occasions such as this afforded by the House Select Committee on Hunger to provide a wide range of comment on international relief and development issues have been invaluable as a a means of increasing congressional and public awareness. The committee can take pride in its accomplishments to date and we hope that its mandate will be extended in the future.

You have asked us to comment on some very specific issues relating to the implementation of provisions of the Food Security Act of 1985, particularly those that relate to monetization. We are pleased to be able to do so. But first, I would like to make some more general comments for the record.

As the members of the Committee may be aware, the U.S. Catholic bishops meeting in Washington last November issued a pastoral letter on Catholic Social Teaching and the U.S. Economy entitled "Economic Justice for All." In that letter they noted that:

> The problem of hunger has a special significance for those who read the Scriptures and profess the Christian faith. From the Lord's command to feed the hungry, to the Eucharist we celebrate as the Bread of Life, the fabric of our faith demands that we be creatively engaged in sharing the food that sustains life. There is no more basic human need. The gospel imperative takes on new urgency in a world of abundant harvests where hundreds of millions of people face starvation. Relief and prevention of their hunger cannot be left to the arithmetic of the market place.

From this moral perspective, the bishops go on to identify hunger as a product of poverty, a poverty which consigns millions around the world to a life in which they "live literally from day to day." The pastoral asserts that "relieving and preventing hunger is part of a larger, coordinated strategy to attack poverty itself. People must be enabled either to grow or to buy the food they need, without depending on an indefinite dole; there is no substitute for long-term agricultural and food-system development in the nations now caught in the grip of hunger and starvation." One key to this kind of development, the document notes, is in enabling small farmers in the Third World to equitably participate in the food system. "In these poor, food-deficit countries," the bishops point out, "no less than in our own, the small family farm deserves support and protection."

To identify the longer-term problem does not obviate the need for more immediate measures that can and should be

taken to help alleviate hunger and poverty. The pastoral also singles out "the short-term obligation of the world's major food-exporting nation to provide food aid sufficient to meet the nutritional needs of poor people, and to provide it not simply to dispose of surpluses but in a way that does not discourage local food production."

In both near and longer term efforts to alleviate hunger, "Economic Justice for All" posits a central role for the United States. "There can be no successful solution to the problem of hunger in the world," the pastoral concludes, "without U.S. participation in a cooperative effort that simultaneously increases food aid and launches a long-term program to help develop food self-reliance in a food-deficit countries."

Over the years, the food assistance programs of the U.S. Government, particularly PL 480 Title II, have helped to save and sustain the lives of millions of people around the globe. CRS is one of a limited number of American private agencies which have continued efforts to make more effective use of food aid. In the course of our experience with food assistance programs, most of us involved have come to see food as a resource which can and ought to be used in a variety of ways that not only help to feed the hungry but also to promote the longer term development of the world's poor to enable them to better provide for their own needs. In the terms of the pastoral letter, this is a part of being "creatively engaged in sharing the food that sustains life."

When the Congress was considering the Food Security Act of 1985, we were active in supporting various measures which in our judgement would help to improve the efficiency and effectiveness of food assistance programs. One of the most important and potentially innovative of these for programs of the kind that agencies such as CRS operate was an increased authority to monetize commodities, that is the local sale of donated food to generate funds to support programs.

In our support for such increased authority, we viewed monetization as a means of meeting such costs of food programs as inland transport, storage and handling, which have in recent years have become more difficult to come by. We also believe that monetization can be used to fund complementary interventions--oral rehydration, income generating projects, partial cash wages in food for work, technical training and support--which, when combined with food assistance, lead to more developmentally effective programs. We also view monetization as a means of generating funds for development projects not necessarily directly associated with feeding programs, thus giving the commodity resource a new dimension and a new flexibility.

Since the passage of the Food Security Act, AID and the other involved agencies have moved at a very deliberate pace to formulate guidelines for monetization. The length of the inter-agency clearance process in coming to a set of policy guidelines has been a source of concern to us and, we believe, has resulted in delays that were probably not necessary in implementing the monetization provisions. We were also disappointed that the process of developing guidelines was essentially an in-house exercise for the Executive Branch, which virtually precluded meaningful participation and comment from the private voluntary agencies and other organizations which have developed and are developing proposals. If a real partnership in food assistance is to apply, we would argue that the operating agencies ought to be in at both the take-offs and the landings.

Having said as much, we generally agree with the guidelines that have been issued--as far as they go. We have some eight monetization proposals at various stages of implementation and, while the approval process has been a good deal slower than we believe necessary, they are now moving forward.

Under the guidelines, monetization is limited almost solely to measures to implement and strengthen project food aid. As a statement of priority on the use of the authority, we would agree with this thrust. It would be counterproductive, we believe, if monetization of commodities were to emerge as an active competitor with feeding programs within the Title II or Section 416 authorities. We view commodities for monetization as being in addition to those required for distribution. Simply put, it is the direct, immediate needs of those who are hungry which must be first served in food assistance efforts.

Keeping this priority in mind and applying the principle of additionality, however, we believe that the guidelines are too narrow and restrictive. The Food Security Act provides for a broader application. Indeed, at the present time, given generally depressed commodity prices and shipping rates, it seems clear that budgetary provisions for Title II and Section 416 are adequate to meet all demands for direct distribution programs, monetization to improve and enhance those programs and, in addition, to support a respectable level of monetization to fund non-food related development projects. To entirely preclude the latter is not in keeping with congressional intent, in our view, and not consistent with the availability of resources.

Another issue raised by the guidelines that is worth mentioning is the possible risk of disincentives to local production. On the whole, we agree with the view set out in the guidelines that most monetizations are likely to be such

a small percentage of local production that "there is no substantial disincentive effect on local production and marketing." We are, however, sensitive to the potential problem. Thus we have adopted a policy for our own monetization proposals to carefully analyze any danger of disincentives within the overall framework of imports, food aid and government policy with respect to the commodity in question in the country where the monetization is proposed. We will continue to monitor any price fluctuations over the life of any monetization we undertake and will, as needed, be prepared to make timely adjustments.

One final word on the guidelines has to do with AID participation in monetization transactions. As now defined, the "role of the AID Mission will remain that of oversight and monitoring." In other words, the agency is placing itself at some distance from the process. We believe this is unfortunate. We think that the model used in previous monetizations during emergencies where the AID mission was a signatory in a tripartite agreement with the PVO and the local purchaser would be both helpful and appropriate. We do not want to become grain merchants and would like to be able to make use of AID's experience and expertise in negotiating and carrying out sales agreements. Such operational assistance is not unusual between AID and PVOs and, particularly in such a new area of experience, we believe that local AID missions should be prepared to assist actively in carrying out monetizations which the agency has approved.

In a recent action, the Senate in April passed a bill (S. 659) which addresses certain issues relating to monetization. I would like to comment briefly on one or two of the provisions of that bill.

First, the bill would increase the mandated floor level for monetization from the 5% provided in the Food Security Act to 10% for the " 'aggregate' value of commodities distributed under non-emergency programs" under Title II." The percentage available for sale under Section 416 is also increased "from 5 to 10 percent of the value of all goods furnished under Section 416, or of the minimum tonnage required, whichever is greater. . ."

We question the wisdom of such increases in mandated monetization. We do so for a number of reasons. The 5% level is a measure which we believe was both prudent and necessary. Given the record of inactivity on monetization requests before its passage, monetization could not have received a fair hearing without the earmark. We would however, be inclined to doubt that there is a sufficient track record yet available to support a doubling of the levels. Coming at such an early stage in the process, as both we and AID gain experience, we fear that steady--even

annual--efforts to raise the floor levels could well set up that competition between monetization project funding and food distribution programs which must be avoided. The 5% percent level is, after all, a floor and there is nothing in principle to prevent monetization at a higher level if that is justified. Once we see what kind of record is established at current levels, what is allowed and what the traffic will reasonably bear, it may be more appropriate to make the case for an increased mandated level.

The bill also sets up criteria for the use of funds generated by monetization transactions, which are:

(1) to transport, distribute, and otherwise enhance the effectiveness of the use of commodities and products donated under this title; and
(2) to implement income generating, community development, health, nutrition, cooperative development, agricultural programs, and other developmental activities.

As I have noted, we can endorse both purposes but not, as presented in the bill, as having equal call on resources. Without a clearly stated priority of support to food programs we believe that Title II and Section 416 may come to be seen as just other funding or market-development tools without due and proper regard to traditional humanitarian concerns for providing food to the hungry. Indeed, some of the report language accompanying the bill seems to have just that sort of thrust. Even in times of budgetary constraint, we believe it would be unfortunate if the monetization authority applicable to either Title II or Section 416 were to drain support from development assistance accounts rather than being seen, correctly in our view, as a resource complementary to development assistance funding.

The bill also contains a provision for a 45 day response period to monetization proposals. It requires that final action be taken in that time as well as a 30 day notice period for proposed guidelines. We have sympathy with both measures and would generally support them. We would propose, however, that the 45 day limit not preclude eventual approval as the current language seems to have it. Straight approval or disapproval in that period of time may well be an invitation to return disapprovals on a wholesale basis. We would like to leave open the possibility of a response in the 45 day period that may leave the way open to later approval and to know that within the period stipulated.

Before concluding, I would just like to make a brief comment about the possible role of food aid in programs of structural adjustment. Many of the developing countries are today seeking to initiate adjustment programs--restraint of

fiscal deficits and monetary expansion, reforms of government expenditures and revenues, realignment of incentive structures, etc.--in order to promote growth and generate employment. It is argued that such programs will, over the long run, serve to improve the lot of the poor "by eliminating policy-induced distortions which limit the mobility of resources, suppress agricultural prices and subsidize capital." Yet in the shorter term, such measures are likely to have severe social costs, especially among the vulnerable poor and may result in increases in poverty among marginal populations.

It has been suggested that food assistance through PVO distribution programs may be one means of helping to cushion the blow that various austerity measures, such as the elimination of food subsidies, may have on poor populations. This is a complex issue and one which we are examining carefully However desirable policy reform may be, we agree with the pastoral that the needs of the poor "cannot be left to the arithmetic of the marketplace." The protection of poor populations cannot be left out of the calculations in undertaking what may be needed reforms. One way to assist in that process may be food assistance programs as measure of transition. Palliatives, however, are no substitute for realistic and compassionate concern for the poor.

For our own part, we stand ready to consider participation in sound, carefully defined, responsibly targeted interventions on behalf of persons likely to be disadvantaged in the process of structural adjustment. In doing so, however, we will wish to assure ourselves that the overall design to the adjustment program as worked out between the cooperating country and international institutions makes adequate provision for both growth and equity. Thus, we would expect to be fully consulted and informed and to participate to the degree necessary and appropriate in the design and direction of any food program associated with structural adjustment measures.

That concludes my remarks. I would be happy to take any questions.

Prepared Statement of Charles Sykes, Assistant Executive Director, CARE, on Behalf of the Coalition for Food Aid Policy and Programs

Mr. Chairman, I appreciate the opportunity to testify before the House Select committee on Hunger today regarding the economic impact of food aid and the Administration's proposals for Africa.

Today I am here not only as the Assistant Executive Director of CARE, but also as a Director of the Coalition for Food Aid Policy and Programs. The Coalition was formed in 1985 to seek expanded uses of U.S. food aid as a resource for development. The current members are six private voluntary organizations (PVOs) and cooperatives that utilize U.S. food aid donations in humanitarian and development programs overseas. These groups are the Adventist Development and Relief Agency (ADRA), CARE, Land O'Lakes, National Cooperative Business Association (NCBA), SHARE, and World Vision Relief Organization.

The Coalition is particularily alarmed at the recently reported food aid projections of the International Food Policy Research Institute (IFPRI) which indicate:

"that food aid needs of 87 developing countries will increase from about 9 million metric tons in 1980 to around 44 million tons in 1990, if past trends continue. In addition, commercial imports of these countries are expected to

increase from 43 million tons in 1980 to 57 million tons in 1990. Forty-three percent of total food aid needs by 1990 will be in Sub-Saharan Africa"

Accordingly, the Coalition applauds the President's Initiative to End Hunger in Sub-Saharan Africa, particularily that provision of the Initiative related to food aid:

"U.S. food assistance programs should stress production incentives for recipient countries, communities and individuals to reinforce economic refore and productivity."

We have seen in the Section 416(b) Sugar quota compensatory program the speed and flexability with which the Administration can act in using commodities for offsetting the foreign exchange losses of over 30 poor, developing countries. We sincerely hope that those charged by the President to carry out his Africa Initiative will employ the same fast track and flexible procedures as those employed in the Sugar Quota Compensatory Program. If these food assistance programs are to effectively provide "production incentives" at the "community and individual" level, the non-Governmental Organizations (PVOs and Cooperatives), both U.S. and indigenous, represent the most important and perhaps only truely accountable channel on which to rely.

As organizations with experience in food aid programs, we agree that commodity provided under PL 480 Title II and Section 416, can be effectively programmed to help the hungry as well as build self-sufficiency. To meet developmental goals and to help poor people to obtain the means to support themselves, food aid must be considered <u>more than a hand-out</u>. One of the keys to assisting developing countries to move from the subsistence stage to the

stage of sustained development and economic growth is to invest in the development programes that will increase job opportunities. Food aid, especially at a time of tight budgets, can play an important role in this process.

The distribution of food for emergencies and ongoing feeding of the malnourished, which is often a complex and costly process as we have experienced in Africa, is only part of the picture. Food aid must be targeted through carefully planned programs which do not create dependency in order to realize a positive economic and health impact.

Although the preponderance of food aid is and, in the Coalition's view, will always be used to help the starving and malnourished through direct feeding and nutrition programs, we believe that we must do more than just provide nourishment. PVOs and cooperatives with experience overseas can implement development programs using the proceeds from the sale, (or monetization) of food aid commodities. By using the proceeds from such sales to create jobs and businesses for the poor and to provide the technical assistance and training needed to sustain such enterprises, food aid use can be maximized.

Traditional food aided programs which target special needs groups by age, gender and economic deprivation criteria remain the largest and most effective modalities for reaching those most in need, e.g. (1) child survival related supplemental feeding and nutrition programs (2) primary school feeding programs serving the children of low income families and (3) food for work programs which build and maintain vital infra structures. All these programs require more than simply food if they are to be effective and successful. Mothers bring their infants and young children to health centers for immunization, oral rehydration therapy as well as food supplementation. More

importantly, they learn to prepare oral rehydration mixes and to maintain growth monitoring charts.

Poor rural landless families are more likely to send one of their children to school if a meal is provided at mid-day. A recent study from India, funded by AID, clearly indicated that in impoverished districts, enrollment and attendance levels, prticularly amongst girls, was significantly higher when the school had a Title II mid-day meal program. World Bank studies have shown that small and marginal farmers in India with a few years of basic education do substantically better economically than their illiterate neighbors, thus confirming that the rate of return on investment in education is extremely high - a supposition broadly accepted in this country. In spite of these findings, AID decided to exclude education as a development concern in India and has mandated the termination of Title II allocations for the primary school mid-day meals program by 1990. The typical daily ration per child in this program is 90 grams of food per day. Some 5 million children will be dropped from the program over the next two years. It should be borne in mind that India's annual expenditures for this program exceeded the value of the food provided under Title and the ocean freight. It is one of the few U.S. supported programs that reached a significant number of India poor whose only exit card from poverty was literacy.

Most of Sub-Saharan Africa is not blessed with India's infrastructure of roads, railways, irrigation systems (less than 10% of Africa agriculture benefits from irrigation), schools or health centers. Accordingly, the establishment of broad based non-emergency programs, linked to long term education and health objectives, has been impeded.

The monetization of food aid commodities represents a major source of funding to not only offset the high internal transport costs in Africa, but

also to help build the infrastructure which is so critically needed in the region.

With respect to the inordinately high internal transport costs, greater use of barter and triangular transactions in which food aid is traded or monetized at the port of arrival for locally produced food in close proximity to food deficit areas or food deficit neighboring countries needs to be encouraged. Similar arrangements could also be carried out in India with high value commodities such as dairy products and edible oils traded at port for Indian cereals and pulses produced in central, inland agricultural areas. The net transport savings alone would enable many of the poorer Indian states to continue the programs that AID is now abandoning.

Indeed, the 1985 Farm Act emphasized the importance of such programs and mandated that at least 5% of Title II and 5% of Section 416 commodities be monetized to cover the costs of such programs and for transportation. In Africa, the cost of inland transportation can easily be more than the cost of the food supplied to the needy.

Beyond the use of local currencies to pay for transportation and storage, there are two approaches to using monetization to increase the economic impact of food aid. One way is to sell a portion of the donated commodities in order to pay for transportation, storage, equipment, training and materials to turn a regular feeding project into a more comprehensive program.

For instance, with monetization mother child health care can provide more than a ration of food for needy children and mothers. The proceeds can be used for training local para-professionals who can visit with families to follow-up on the use of the commodity and to discuss nutrition. Or, the mothers could be provided with vegetable seeds for home gardens and to increase their incomes. And as you suggested in earlier legislation,Mr.

Chairman, monetization can be used to encourage and expand immunization against childhood deseases.

Another use of monetization is to identify a commodity for which there is a deficit because the country cannot afford the hard currency needed to import it. The commodity can be sold through regular market channels at market prices and the proceeds used to promote the production, processing and marketing of such commodities. This concept is not new. Cooperatives have conducted such projects under Title II. The local currencies generated from the sale of soybean oil in India was used by NCBA for technical assistance, training, and the purchase of materials for an oilseed cooperative project in India. In Jamaica Land O'Lakes uses local currencies generated from the sale of butter and cheese to fund a foundation which offers loans to poor people, including farmers and micro-enterprises.

We believe that these types of projects, plus others by PVOs using monetization, are an important link between relief and sustained development. For instance, ADRA is currently using AID enhancement funds for a demonstration agricultural development project in Rwanda. In this country land is at a premium, since the population is growing rapidly. ADRA is successfully training farmers to terrace hillsides, to use composting, and to till properly to conserve land. They would like to expand this successful program, but the funds may not be available. Therefore, since there is a need for food, ADRA would like to turn this into a monetization project, which is a practical way to continue the program while helping to increase the net availability of food to a food deficit country.

However, the recent monetization guidelines sent to AID missions defines monetization as the sale of a "portion" of the donated commodities, about 5-30 percent, and limits the use of the proceeds to ancillary costs of a direct

feeding program or transportation. The guidelines emphasize that any other type of monetization project is not encouraged, even though the law does not place retrictions on the use of proceeds.

Such restrictions do not apply when food is donated on a government to government basis. In fact, $290 million worth of Section 416 commodities has been made available as compensation to countries that have had their sugar quotas reduced by the U.S. in 1987. The U.S. Government is not placing any restrictions on the sale of such commodities by the recipient governments or on the use of proceeds from such sales.

At a time of abundant stocks of U.S. commodities and severe budget restraints, administrative limitations for cooperatives and PVOs are an impediment to economic growth overseas. The guidelines governing sales and barter should be more flexible, encouraging development-oriented projects using local currencies. PVOs and cooperatives are important partners in development--they can work directly with individuals and strengthen local communities. PVOs and cooperatives should participate in the development of food aid guidelines since they carry out the programs overseas.

The Coalition supports legislation introduced by Representative Panetta (H.E. 1809) and Senator Melcher (S.659) which clearly states that currencies generated from full or partial sales of food aid can be used to implement a range of development activities. It also calls for a time limit of 45 days for action on a food aid proposal after it has been approved by the AID mission and sent to Washington and requires AID to allow PVOs, cooperatives, and other interested parties to review and comment on guidelines before they are issued.

Further, this legislation builds linkages between agriculture and development groups, and USDA and AID, by mandating the establishment of

agricultural aid and trade missions to developing countries to identify ways to better use our food aid and other agriculture export programs.

H.R. 1809 has been incorporated into H.R. 3, the House Trade Bill. We believe this legislation is needed now because food aid programs are currently being reviewed for FY 1988. Despite the broad and flexible authority of Title II and Section 416, curent monetization guidelines proscribe their limited and partial use for the most traditional direct feeding programs.

I would like to emphasize that there are strong safeguards in the law and in regulations which prevent monetization from disrupting usual commercial marketings of commodities or local production and marketing. In fact, the focus of PVO and cooperative monetization is on commodities which are in short supply, but for which there is a demand in the food deficit country. Such deficit commodities will not be purchased due to foreign exchange difficulties.

In summary, the introduction of explicit monetization provisions in both Title II and Section 416 set off a wave of interest and high expectations in the PVO and cooperative groups. Well designed partial and 100% monetization proposals for relatively small quantities of commodities were submitted by NGOs in Egypt, Indonesia, The Congo, Dominican Republic, Senegal, Kenya, and India, with some encouragement from AID. The new guidelines for PVO/Coop monetization have been a disappointment to the Coalition. A number of PVOs originally interested in monetization have pulled back after seeing the guidelines.

In conclusion Mr. Chairman, the IFPRI, FAO and ERS (USDA) projections give the Coalition some reason for concern. With reference to the President's Africa Initiative it is well timed and should be supported. We hope that those responsible for mounting this Initiative will develop common standards for government to government and NGO food aid programs and agressively utilize food aid as a development tool for eliminating the causes of hunger.

PREPARED STATEMENT OF CLAIBORN H. CRAIN, EXECUTIVE DIRECTOR, AGRICULTURE COUNCIL OF AMERICA

Mr. Chairman, Members of the Committee, I am very pleased to be here today representing the Agriculture Council of America and its president, former Secretary of Agriculture Orville Freeman. Mr. Freeman regrets not being able to be here today, but other business has him out of town. To put my testimony in perspective, I would like to tell you just a little about the Agriculture Council of America (ACA).

ACA is an unbrella organization with membership ranging from "hands on" farmers, small businesses, state and national organizations and major corporations...all with a major stake in agriculture. Our charter is to provide unity when ever possible in agriculture, and speak with one voice on those issues. I would like to submit for the record a list of both our board of directors and the trustees of the ACA Foundation to indicate the scope of our organization.

While we are a broad based organization, our membership realizes that the foundation of each of their business or organization's strength is the economic health of the American farmer. From the major corporation to the one that raises the crop, if the farmer is not making money, no one is going to make money for very long.

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What does this have to do with hunger, food assistance, Title II of Public Law 480 and Section 416? Everything!! There is no reason for the farmer and rancher to produce food and fiber if there is no market for the product. Domestic markets consume only 60 percent of the production capacity of the American agriculture system.

We have seen reports, read in the papers, and heard testimony before different committies that the world just does not need our excess production. That must mean that world hunger problems have been solved. No, there is still hunger and malnutrition. There are millions that die of hunger and related problems every year while our surplus stocks push prices down and bankrupt American farmers and those supply and support businesses that depend on the United States agricultural system.

There is a difference between need and demand. Under Secretary of Agriculture for International Affairs and Commodity Programs, Daniel Amstultz testified on May 20, before the U.S. House of Representatives Government Operations subcommittee on Information, Justice and Agriculture that there was not "unfilled demand in the world but unfilled latent demand". That latent demand Mr. Amstultz refered to is the need that I am talking about. <u>What the helps farmer is for that need to become demand!</u>

Orville Freeman and the Agriculture Council of America believe the programs this Committee is reviewing today can be used to help transform that need into the demand. If I sound a little crass in talking about the farmers' bottom line and third world hunger in the same breath, forgive me, but these programs purpose should be twofold.

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First, the hungry must be fed. Second, and the only long run solution to the first problem for the people to reach a level of economic stability where they are not dependent on assistance. When the people in a developing nation have money in their pockets, we start calling them customers.

When Mr. Freeman was named Secretary of Agriculture by President Kennedy in 1961, conditions in agriculture were much like they are today. Millions hungry in the world and price breaking surpluses in the United States. One big differency was the surplus production was 10 percent, not the 40 percent it is today. The paradox of a world full of food while people go to bed hungry is just as appalling today as it was 26 years ago.

Programs started in the late 1950's that combined humanitarian relief with economic development were carried through the 1960's. That market-building work sustained the export boom of the 1970's. Of our top ten markets for agricultural exports today, seven were helped by assistance programs during the 1950's and 1960's.

On Mr. Freeman's first trip as Secretary of Agriculture, he visited a small village in Pakistan. In visiting with the mayor of the town, Orville ask the man what his greatest need in was in that village. The mayor said they needed to build a school. Mr. Freeman ask if they could pay for the work with wheat. The mayor said yes, and like they say...the rest is history. A little over a year later Freeman recieved a letter from the mayor and a photograph of the new school.

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Early in this Administration, then Deputy Secretary Lyng and AID Administrator McPherson moved a good amount of surplus dairy stocks through monetization and other innovative means. But there have been to many rules and regulations placed in the way of making monetization work. We here stories of requests being sent back to the field to be reworked. Small, simple, proposals submitted in January that do not get to until May. We know thousands of tons of soybean oil could be used in India.

We are in short budget times in the federal government. It is vital to get the most out of each tax dollar. Use of additional commodities can help every one. Developing countries need help in getting out of the box they are in today. Farmers need for surplus stocks to be used in ways that do not displace normal marketing at home or abroad.

It is always a great game to come before Congress and lay blame to one problems or another. This issue does not lend its self to that. It does scream for solutions. No one action is going to solve the problems of the developing world or the American farmer. It will take every tool available.

President Reagan announced in March his "Initiative to End Hunger in Sub-Saharan Africa". Use this program with the strength of the President of the United States behind it to cut through the red tape and get some things done.

Use the provisions of the 1985 Farm Bill that require 5 percent of commodity value for Title II and Section 416 to be monetized to support transportation, distribution, and related costs of providing food to needy people. There is a provision of HR 3 that passed the House that compares with S 659 that has passed the Senate and is pending in the

House that grants more authority for monetization to be used.

The World Food Program has not recieved commodity donations from the United States for a number of years. This could be a tremendous outlet for surplus commodities and get them in the hands of the people who need the help.

One last issue that is of concern to ACA. Because the economy of many developing nations starts with agriculture, there is concern that economic development means more competion for the American farmer. There exists all kinds of research and evidence that improved income means improved markets for exports. The Curry Foundation has a report out titled U.S. Agriculture & Third World Development...The Critical Linkage. USDA's Economic Research Service has a report written by Gary Volke titled "Economic Growth, Agricultural Trade, and Development Assistance". I have included a copy of the ERS article with my testimony. This research all says the same thing...increased income means improved diets and better markets for U.S. agriculture.

Mr. Freeman has just returned from a trip to China. He reports that the relaxation of controls permitting farmers to produce for the local markets rather than the government is changing the mix of products away from grain in the direction of a much more diversified diet. The pressure on food supplies is tremendous. We feel China is well on the way to becoming a major grain importing nation.

Each country is different. One program will work in one part of the world that will not work some where else. It is vital that we work with each other and the rest of the world to make things work better for all of us.

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Future markets for the American farmer are in the developing nations of the world. The industrialized world has both stable diets and stable population growth. We will continue to fight over our share of those markets, but there will be little new growth.

If we do not help these developing nations change that need to demand, we are going to have many other problems that will cost much more that what we are talking about today. Improved diets in Latin America will do more for our immigration problems than any bill Congress can pass.

Thank you for the good work you are doing. Praise the Administration for the good things they are doing and give them the resourses to do more. Every delay, no matter whose fault, costs lives and resources, at home and abroad. Thank you again for the opportunity to be here today.

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AGRICULTURE COUNCIL OF AMERICA

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ORVILLE L. FREEMAN
President

"BUILDING COMMERCIAL MARKETS: THE KEY TO U.S. RURAL PROSPERITY"
by The Hon. Orville Freeman

Executive Summary

BACKGROUND:

The economic crisis facing the agricultural economy today is not new. Congress and the Executive Branch face pressures today just as strong as in the 1930's. There are simultaneous demands from different constituencies to reduce the cost to taxpayers of agricultural programs and to strengthen our overall farm economy. There are policy conflicts between more price supports or fewer, more protectionism or less.

WHAT CAN BE DONE?

ACA firmly believes that the best -- the most productive and most cost-effective -- farm policy for America is one of sustained growth in U.S. agricultural exports. How can that growth be achived, and at what cost?

The explosive demand to absorb our tremendous production capacity can only be found in the developing world with its exploding population and hungry people. Current research proves, that as economic development occurs, growing nations import more agricultural commodities to meet growing populations and higher nutrionial levels.

THREE BASIC FACTS about the current world agriculture economy that challenge us:

-- the world demand for food is still great
-- U.S. agricultural surpluses continue to build up
-- the value of U.S. farm exports continues to plummet.

From 1981 to the present, the dollar value of U.S. agricultural exports dropped 40%, from $43.8 billion to $26.3 billion. At the same time, despite all the technological advances of recent years, the world still goes hungry.

Efforts to shore up the U.S. farm economy through the commodity programs has proved to be of marginial aid to the farmer and often disastrous to supporting industries. To bring to a halt 40% of our production machine displaces 40% of rural America. To build a wall around this country as China tried to do centuries ago is as unrealistic as farming with two mules and a walking plow.

But the problem is not unsolvable. In the 1970s -- a golden era for American agriculture -- we were reaping the benefits of the most successful long-term agriculture program in our history.

(Over)

The program was based on a key economic fact that remains true today: when developing countries increase their national income, they also increase their agricultural imports. When the people on the streets begin to have money in their pockets, they become "CONSUMERS", and consumers are customers!

BUILDING NEW MARKETS TAKES USING ALL TOOLS AVAILABLE:

Today, the challenge before us is to update and recalibrate the production and development programs that built the tremendous commercial demand of the 1970s. The basis for the successful building of new commercial export markets, then as now, is an action triangle of government initiatives:

-- food assistance
-- economic development
-- building of commercial markets

Developmental programs need to be tailored to the individual needs and markets of each country, taken on a case-by-case basis. They need to be creatively implemented, incorporating the monetization of commodities to further stimulate internal development. And they require a longterm committment from the public and private sectors.

But they will work. The economic fact, well documented by recent research, is that in the past, food aid and development assistance turned poor countries into strong emergent economies with an explosive demand for agricultural imports. We created demand by helping clients become customers.

CONSIDER ONE EXAMPLE, KOREA:

In 1961, Korea had a per-capita income of $83. Today, after 25 years of food aid and other development assistance, Korea has a per-capita income of $2200 a year and is a multi-billion dollar market for U.S. farm commodities.

There are similar success stories in Spain, Mexico, and Taiwan. Brazil is now following suit. Now is the time to renew our efforts at bulding strong exanding markets in the developing countries of the 1980s: the middle income to upper-middle developing countries provide the fastest turn-around and should be our first targets. Some of these countries are past the PL-480 and Section 416 assistance levels, but not quite to the full flegged commerical customer we need.

THE NEXT STEP:

Market development must become the first priority of U.S. foreign economic policy. That takes cooperation and requires a public and private commitment to the goal of market-building. Only with such a commitment will we have coherent objectives and coordinated operations in the pursuit of maximum agricultural export expansion. The ACA is leading the way toward securing such a commitment in the private sector, and we hope the leadership of both parties will join us in this work.

After all, if we can stimulate demand in developing countries by aiding their development, we know that we will be able to meet that demand with high-quality U.S. farm products. But if we fail, we remain in a stagnant environment of excess production at home, and hunger abroad.

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World Food Availability and Needs

World production of cereals hit a record high of 1865 million tons in 1986. This harvest combined with carryover stocks from 1985/86 has led to a 5% increase in world cereal supplies to total 2113 million tons. World utilization of cereals has also increased but remains below aggregate production.

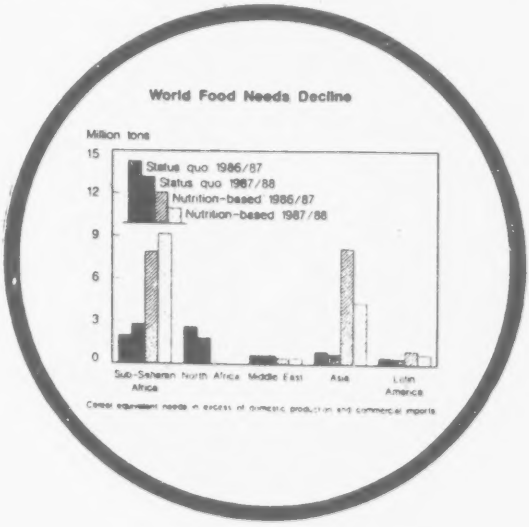
Despite adequate aggregate food supplies, many countries are not currently meeting the food needs of their citizens. Food production is insufficient and foreign exchange capacity limits the importation of needed food. Food aid has traditionally attempted to fill this gap.

Food Aid Needs

The 1986-88 trends shows worldwide additional cereal needs declining in **North Africa**, the **Middle East, Asia,** and **Latin America.** Needs are increasing in **sub-Saharan Africa** (Figure 1). Food needs are looked at primarily in terms of cereals since they form the basis for most diets and constitute the major portion of food aid.

South Asia and **sub-Saharan Africa** are experiencing significant gaps betwen nutrition-based and status quo needs. World Bank 1980 estimates are that **235 million people** in **South Asia** and **44 million** in **sub-Saharan Africa** live in states of chronic malnutrition which inhibit them from participating in normal daily activities.

Projected additional cereal needs for 1987/88, including stock adjustments, are **6.8 million metric tons** for status quo needs and **15 million tons** to meet nutrition-based needs.



Determination of Need

Additional food needs are a country's requirement for food which will not be met by agricultural production and food imports. Figures have been calculated by the USDA Economic Research Service for 69 developing countries.

Two standards of need are used:

Status quo need is the amount of additional food required to keep aggregate consumption from falling below recent levels. Filling status quo needs means situations of malnutrition will not worsen within a country. However, millions may remain malnourished when this level of need is met.

Nutrition-based need is the amount of additional food required to provide all citizens with food intakes equal to the FAO standard of minimum caloric intake. This is the level of need which must be met to ensure that all citizens are healthy and able to participate in productive activity.

Both standards of need assume equal per capita distribution of food. In reality, inadequate household purchasing power, a poor food delivery system, and civil strife, all serve as barriers to receiving food. Also, these figures are calculated assuming good future weather conditions. Poor weather may create situations of famine beyond the anticipated need.

Limitations on the food delivery system lead to the calculation of a third category of additional food need: **maximum absorbable needs**. This is a rough estimate of the maximum amount of food a country can absorb for distribution. It has been observed to be exceeded in times of emergency.

Guide to U.S. International Food Assistance Programs

P.L. 480 (Food for Peace Program): Program of international food assistance authorized by the Agricultural Trade Development and Assistance Act of 1954. Distribution of U.S. agricultural commodities is governed by three titles.

Title I: Authorizes concessional sales of U.S. agricultural commodities to friendly countries. Sales are made under long term, low-interest loans repayable in U.S. dollars or currencies convertible to dollars.

Title II: Authorizes donation of U.S. agricultural commodities to support ongoing programs such as school feeding and maternal/child health, as well as provide emergency disaster relief. Some donations are made directly to foreign governments (government-to-government), but the majority of commodities are transferred through private voluntary organizations and the World Food Program.

Title III (Food for Development Program): Allows for loan forgiveness of sales authorized under Title I, if recipient countries use local currencies generated from the sale of U.S. commodities to finance development programs as specified in the Act. Title III is frequently not used because countries find the guidelines too restrictive.

Section 416 (of the Agricultural Act of 1949): Authorizes the donation of surplus U.S agricultural commodities, to prevent their waste, for carrying out programs of assistance in developing and friendly countries. Levels of assistance available depend on current U.S. commodity stocks.

U.S. Food Aid Expenditures

Approved allocations to Title II/Sec. 416 for FY 1987:

Title II (as of 5/28/87)	1.9 million metric tons
Sec. 416 (as of 5/18/87)	.8 million metric tons
Total	**2.7 million metric tons**

Commodity composition of Title II/Sec. 416 aid:

Commodity	Amount	Percent
Wheat products	1,508,893 tons	56.3 percent
Corn products	518,436	19.4
Rice	182,638	6.8
Sorghum	70,428	2.6
Oats	7,517	.3
Vegetable oil	130,410	4.9
Nonfat dry milk	196,519	7.3
Cheese	15,215	.6
Butter/butter oil	12,579	.5
Pulses (beans, lentils soybeans, peas)	35,880	1.3
Total	2,678,515 tons	100.0 percent

Recipients of Food Aid FY 1987

Europe: Poland, 4900 tons

Near East: 61,400 tons. Morocco received 45% of this total at 27,400 tons and Lebanon received 26% with 15,700 tons.

Africa: 733,000 tons. Most African nations received some aid. The largest recipient was **Mozambique** at 170,600 tons (23%). Zaire was next with 46,500 tons (6%). Somalia received 35,200 tons (5%), and Tanzania, Lesotho, and Burkina (FASO) each received around 28,000 tons(4%). Ethiopia received 25,000 tons (3.4%).

Latin America: 821,800 tons. The largest recipients were the Dominican Republic (163,600 tons) and Guatemala (146,000 tons). Mexico and Haiti each received around 95,000 tons, while aid to Peru was 83,600 tons and to Bolivia, 63,000 tons.

The **Sugar Quota Offset Program** plays a major role in Latin American food aid. **Forty-nine percent** of all aid to the region is channeled through this program. **All food aid** to Belize, Brazil, and Trinidad is through this program, as is more than 98% of the aid to Guyana and Costa Rica.

South Asia: 545,109 tons. Seventy percent of the aid went to India (259,400 tons) and Bangladesh (123,400 tons).

Southeast Asia: 267,900 tons. The majority of aid went to the **Philippines** at **245,300 tons.**

U.S. Commodity Stocks

Levels of CCC-Owned Commodity Stocks as of 5/18/87, corrected for committed stocks, were:

Commodity	Amount
Butter	75.2 thousand tons
Cheese	120.4
Nonfat Dry Milk	39.9
Wheat	20,621
Corn	36,468
Rice	925.5

South Asia: An almost 50% decline in nutrition-based needs is predicted for 1987/88 for the region due to increased production in **India** and **Pakistan.** However, gaps between nutrition-based and status quo needs remain high particularly in **Bangladesh** and **Nepal.** Poor weather and decreased import capacity have led to rising cereal needs in **Sri Lanka** and **Nepal.** Estimated 1987/88 nutrition-based needs are **Bangladesh: 2.9 million tons; Sri Lanka: 341 thousand tons;** and **Nepal: .5 million tons.**

Caribbean: Food aid needs continue to decline in region as a whole. However, **Haiti** has the fourth highest per capita nutrition-based needs of the 69 countries surveyed, with a 1987/88 need of **166 thousand tons.**

Central America: Slow economic growth and a heavy debt burden limts the capacity of countries to import needed food. **Guatemala** has the highest nutrition-based needs at **67,000 tons.** Status quo needs are highest in **El Salvador** at **5,000 tons.**

South America: Bolivia is the only country in the region with nutrition-based needs due to decreased agricultural output, heavy foreign debt burdens, and stagnated economic growth. The need for 1987/88 is **128 thousand tons.**

The Human Cost

The human cost represented by these food needs is high. The UN Food and Agricultural Organization (FAO) estimated in 1980, the latest figures available, that the numbers of undernourished were **201 million** in **India, 12 million** in **Pakistan, 27 million** in **Bangladesh.**

The prevalence of malnourishment among children under five, according to United Nations Children's Fund (UNICEF) data collected between 1980-84 is:

Country	Prevalence (%)	Numbers of children (millions)
Pakistan	72%	12.5 million
Bangladesh	84	15
Nepal	57	1.5
Haiti	75	.8
El Salvador	58	.6
Costa Rica	47	.2
Bolivia	52	.6
Ecuador	40	.6
Peru	44	1.3

World Food Needs

Table I contains estimated additional food needs by region for 1987/88.

Additional cereal needs to support consumption including stocks adjustments

Region	Status quo	Nutrition-based	Maximum
	---- Thousand tons (cereal equivalent) ----		
1987/88			
Total	6,761	15,107	11,253
Africa	4,835	9,397	8,205
North Africa	1,913	0	1,193
Sub-Saharan Africa	2,922	9,397	6,292
West Africa	490	1,718	910
Central Africa	202	356	356
East Africa	1,367	4,853	3,299
Southern Africa	863	2,470	1,727
Middle East	680	502	680
Asia	794	4,447	1,734
South Asia	564	4,118	1,405
Southeast Asia	140	329	329
Latin America	452	761	634
Caribbean	74	155	155
Central America	378	478	478
South America	0	126	126

Table I (Adapted from World Food Needs and Availabilities, 1986/87: Spring Update, USDA)

Regional summaries

North Africa: Needs are declining with increased production and stable import capacity. Status quo needs are more than adequate to meet nutritional needs in **Egypt**, **Morocco**, and **Tunisia**. Drought in Tunisia has created pockets of need among rural households in the southern and western parts of the country.

sub-Saharan Africa: Nutrition-based needs are **9 million tons** to correct chronic malnutrition. Poor harvests due to unfavorable weather and/or civil strife have placed **11.4 million** people in **Sudan**, **Mozambique**, **Angola**, and **Ethiopia** at risk of starvation. Emergency assistance of **.85 million tons** of food needs to be targetted to these countries.

Southeast Asia: **Kampuchea** is the only country experiencing increasing status quo and nutrition-based needs due to a drop in cereal production and insufficient import capacity. Nutrition-based needs are more than twice the status quo needs given recent low levels of consumption. **315 thousand tons** of cereals will be required to meet nutrition-based needs in 1986/87, increasing to **321 tons** in 1987/88.

ENHANCING THE DEVELOPMENTAL IMPACT OF FOOD AID

1) Monetization

In 1985, Members of the Hunger Committee supported legislation to increase the ability of U. S. private voluntary organizations (PVO's) to respond to development needs through monetization. This means the sale or barter of donated food aid commodities from Title II of PL 480 and Section 416 of the Agricultural Act of 1949 in a food aid recipient country. The Food Security Act of 1985 requires that for each fiscal year a minimum of 5 percent of the aggregate value of donated commodities be available for relief organizations to monetize in the foreign recipient countries. The acquired foreign currency would be used by the relief organization to carry out approved development aid projects.

However, there have been long delays in the implementation of these monetization provisions, and the mandated 5 percent minimum of commodities being available for monetization will not be reached in the Section 416 programs, and possibly not in the Title II program. PVO's have expressed concern that the slow, uncertain and costly review process is impeding their ability to improve their programs with the new monetization authority. There seems to be a special difficulty in getting monetization projects approved for countries in Africa. Furthermore, the guidelines established for monetization severely limit its use.

The monetization provisions were included in the Food Security Act to facilitate and expand the use of food assistance for developmental purposes. To date, progress toward that objective has been limited.

2) Food Aid and the Presidential Initiative to End Hunger in Africa

President Reagan released a plan to end hunger in Africa in March of this year. The initiative spans trade, aid and policy considerations. It suggests that U. S. food assistance programs should stress production incentives, and reinforce economic reform and productivity. It also specifically calls for converting food aid loans to grants.

A number of enhancements of food aid in Africa could be implemented in light of this initiative. The Hunger Committee is interested in supporting increased food assistance in Africa. Such increases could come through several channels, including authorities under Title I, Sections 202 or 206 of Title II, or other authorities under Title II of the P.L. 480 program. The Initiative also supports trilateral trade arrangements, which could be increased and regularized to promote intra-regional trade. In responding to debt problems, food aid loans could be converted to grants.

3) **Food Aid and Structural Adjustment Lending**

Structual adjustment lending refers to loans made to support policy and institutional changes necessary for maintaining growth and improving balance of payments in the medium term in a recipient country. Typically these loans provide finance over a number of years in direct support of specific policy reforms. They involve measures for improving prices and incentives to farmers, redirecting public expenditures, strengthening private sector marketing services, or building institution capabilities for data collection and policy analysis.

Food aid can be linked to support structural adjustment and policy change in developing countries, especially in the agricultural section. The commodities can be used to moderate adverse economic and social consequences that may result from the adoption of structural adjustment measures. They can stabilize food supplies and prices during periods of economic austerity. Alternatively, local currencies generated from the sale of food aid can be used by governments in several ways--to lower food prices to consumers, to pay higher prices to producers, or to make appropriate investments. Food aid can also assist by allowing governments to save foreign exchange that would otherwise be spent on commercial food imports.

Research on the use of food aid in these programs is in its early stages. The invited witnesses have been asked to comment on their views of its appropriate use.

4) **Sugar quota offset program**

Since 1985, 39 of the poorest countries of Latin America, Africa and Asia have been compensated for foreign exchange losses resulting from reducing sugar exports to the United States. The Section 416 authority is being used to provide U. S. commodities to these countries in compensation for lost sugar sales. It is estimated that the total value of commodities which will be shipped in this program in 1988 is projects to be approximately $190 million. This one program is close to one-third of the value of the entire Title II program, both emergency and non-emergency.

Requests for sugar quota compensation are reviewed and shipments made as quickly as possible.

Concern has been raised that this compensatory program is not in keeping with the spirit and letter of the Section 416 legislation. Section 416 was intended to reach people nutritionally in need. Because of the streamlined review process for sugar quota program recipients, there is concern that the program is not well-targeted to reach those most in need of nutritional assistance.

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Economic Growth, Agricultural Trade, and Development Assistance

Gary Vocke

Developing countries are the most likely growth markets for U.S. agricultural exports. The best U.S. strategy for increasing the potential of agricultural exports to developing countries is to encourage economic growth in these markets, which will lead to higher incomes and increased food demand. Developing countries will then import more U.S. farm products to meet part of their increased demand.

When developing countries' incomes increased rapidly in the 1970's, so did their agricultural imports. Developing countries, especially those with higher incomes, increased their agricultural imports faster than they did their agricultural exports (fig. 1).

AGRICULTURAL GROWTH RAISES INCOMES AND U.S. EXPORTS

Most developing countries are primarily agricultural. Thus, the best way to raise incomes is to help improve agricultural productivity. If agriculture, as the largest employer, is not more productive, incomes are not likely to increase rapidly. Rising incomes transform a latent demand for better diets into real purchasing power. The effective demand for food generally outruns domestic production because few developing countries have sufficient resources to expand output fast enough to keep up with a rapidly growing economy. Are there sometimes exceptions or tradeoffs for specific export commodities in specific markets? Yes; India furnishes an example.

India is often viewed as a lost market to U.S. wheat farmers because of new technology (called the green revolution) in its wheat production. The green revolution started in the 1960's and refers to dramatic gains in crop productivity resulting from replacing traditional wheat varieties with semidwarf varieties; increasing the use of fertilizers, irrigation, and other agricultural technology; and improving management practices.

The green revolution is a key factor in reducing India's wheat imports. However, most of the country's wheat imports replaced by the green revolution were subsidized by U.S. taxpayers through such programs as Public Law 480. In addition, India's seeming self-sufficiency in wheat production is due more to a lack of effective demand because of low incomes and an unequal distribution of income and wealth than to new technology. The country still has millions of undernourished and poor people. So, without strong economic growth, U.S. export markets can be reduced by improved agricultural productivity. However, despite the success of its green revolution, India is not expected to become a major U.S. competitor in international wheat markets.

Brazil is another example of a developing country in which increased agricultural production is thought to have hurt U.S. agricultural exports. From 1970 to 1981, Brazil's agricultural production grew almost 70 percent, or 5 percent a year, a rapid rate by international standards. Although Brazil emerged as a strong competitor in export markets for some U.S. commodities, especially soybean meal and oil, its imports of U.S. farm products substantially increased. U.S. agricultural exports to Brazil increased 15 percent a year in quantity and 25 percent a year in value.

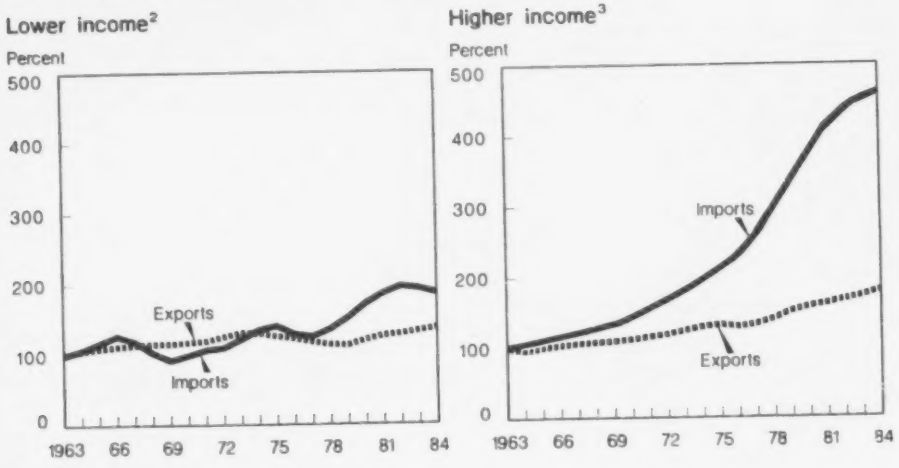
Brazil's improved agricultural production contributed to development in its nonagricultural sector. Growth of the agricultural and nonagricultural sectors dramatically increased availability of foreign exchange. Brazil's imports of U.S. farm products became almost 100 percent commercial (that is, private cash purchases) during the 1970–81 period compared with earlier imports, 64 percent of which were subsidized by U.S. taxpayers through food aid.

The experience of South Korea is a striking example of the economic relationship between general economic development and the emergence of markets for U.S. farm products. In 1981 alone, South Korea bought $2.1 billion in U.S. farm products, exceeding the total value of U.S. food aid to Korea between 1955 and 1979.

In the early 1950's, Taiwan exported more grain than it imported. Although Taiwan has increased food production very rapidly over the past 30 years, it now imports 60 percent of all its cereals. Virtually all of these cereals are feed grains because of greater demand for fed livestock products.

Figure 1

Agricultural Trade in Higher and Lower Income Developing Countries[1]



1/ Percentage of 1961–63 average using deflated 3-year averages.
2/ Includes 58 countries such as India, Malawi, Burma, Morocco, and Colombia.
3/ Includes 23 countries such as Taiwan, Mexico, Brazil, South Korea, and Argentina.

Countries with more rapid economic growth generally increase their agricultural imports at a faster pace than countries with slower economic growth. Higher incomes in developing countries resulting from rising agricultural productivity foster increased agricultural imports. Rising productivity increases incomes of farmers and rural laborers. Employment and income in rural and urban areas then rise as farmers spend their higher incomes on goods and services produced off the farm. By increasing the productivity of the land, new agricultural technology can initiate broad-based economic development leading to industrialization and rising per capita incomes. These rising incomes create food demand that eventually outpaces growth in agricultural production, which is partly why developing countries relied more on imports of food grains and coarse grains during the 1970's. The increase in trade reliance was not due to declining production; rather, it was due to rising consumption based increasingly on imports supported by rising per capita incomes.

Upper income developing countries have been the driving force behind converting the developing world from a net exporter to a net importer (it imports more than it exports) of coarse grains since the 1970's. A key factor is that as poor people's incomes improve, so do the quantity and quality of their diets. Consumers in these countries eat more meat and poultry products and food grains and less other grains, roots, and tubers because of higher incomes, urbanization, and changing lifestyles. Expansion of the poultry and, in some cases, swine industries underlies this switch to meat consumption in developing countries.

In turn, this dietary shift increases the requirements for livestock feed much faster than it can be grown domestically and creates strong, growing import markets for coarse grains. One kilogram of livestock production requires 2-6 kilograms of coarse grains and other feeds. Figures 2 and 3 show that per capita feed use of coarse grains in the upper income developing countries has grown rapidly, whereas feed use in low- and middle-income developing countries has remained flat.

Developing countries became net importers of food grains after World War II, and their dependence on imports has increased steadily since the 1950's. The developing world's reliance on imports of food grains and coarse grains will continue if these countries' economies continue to grow.

U.S. DEVELOPMENT ASSISTANCE TO AGRICULTURE: A PARTIAL ANSWER

The United States has helped low-income countries develop for nearly four decades. This fundamental foreign policy is founded on the belief that the United States will benefit from a world of politically and economically viable nations.

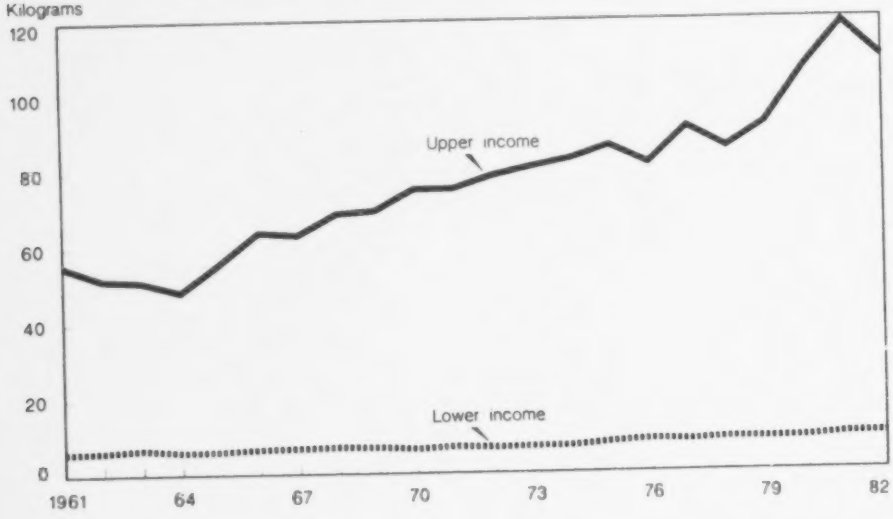
The Agency for International Development (AID) administers direct (bilateral) U.S. economic assistance to more than 80 countries. The United States is the world's largest development assistance donor, but its share is shrinking in terms of gross national product. Foreign aid programs, including military assistance, receive about 1 percent of the Federal budget. Development assistance represents 25 percent of that amount. But, this assistance is not just a giveaway because much of it is used directly by the countries to buy U.S. goods and services. In 1985, $8.6 billion in bilaterial U.S. economic assistance to developing countries directly generated about $6 billion in U.S. exports of goods and services.

If economic and market development are to occur, the United States, other aid donors, and the developing countries themselves must give strong, long-term support to agricultural development. While not always successful, the combination of policy reform and investment in agricultural research and infrastructure has produced sustained agricultural development in a number of Asian and Latin American countries. Such development has moved them from low-income status to middle and upper income levels to become significant net importers of agricultural commodities.

IMPORTS LEVEL OFF IN EARLY 1980's

Agricultural imports by developing countries have slowed in the last several years because of factors outside the influence of the U.S. development assistance programs. Foreign debt (money owed to other countries) in developing countries increased rapidly, starting in 1973–74 as higher oil prices sharply increased trade deficits (imports exceeded exports) in oil-importing developing countries. These deficits were financed through bank loans. In addition, banks offered low interest rates during this period to recycle petrodollars (a unit of hard currency held by oil-exporting countries as a result of the sharp increases in oil prices) of the Organization of Petroleum Exporting Countries. As a result, many developing countries, including some oil exporters (such as Mexico and Venezuela),

Figure 2
Per Capita Feed Use of Coarse Grains in Upper and Lower Income Developing Countries



Source: FAO

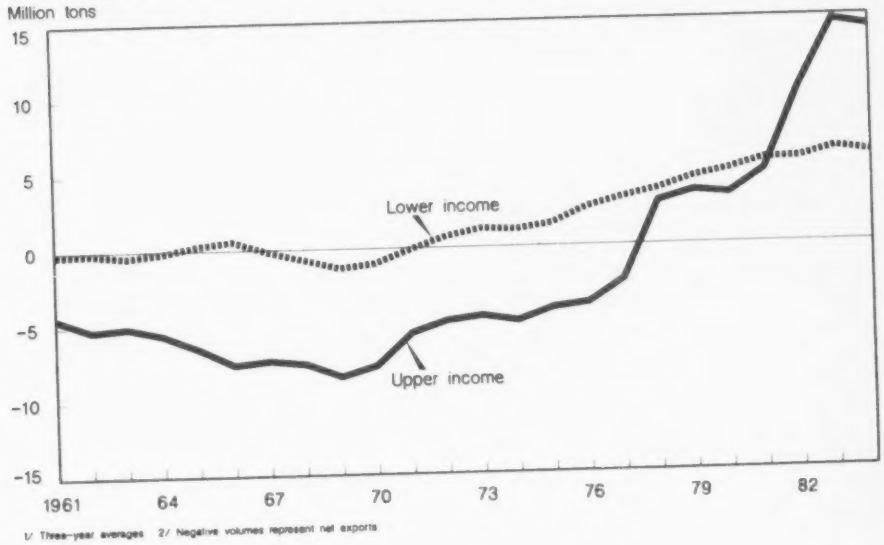
borrowed heavily to finance investments to accelerate their economic growth. Between 1974 and 1979, the economic growth rate of developing countries was double that of industrial countries.

The 1979–80 increase in oil prices contributed to a severe worldwide recession. Industrial countries' demand for developing countries' products dropped, and commodity prices declined. Balance-of-payment positions in developing countries deteriorated, reducing their ability to pay their debts. Because many countries had short-term loans with variable interest rates, sharply rising interest rates during this period compounded their difficulties. The ability of developing countries to pay their debts deteriorated seriously between 1980 and 1982 and caused the debt crisis.

The debt crisis limited expansion of agricultural imports in developing countries because debt payments and commodity imports compete directly for available foreign earnings. Unless countries are able to increase their export earnings or obtain additional long-term loans, they must either default on their debts or reduce imports. Many countries have reduced their imports. In addition, developing countries that are restructuring their debts are subject to International Monetary Fund conditions that often include policy changes to reduce costly food subsidy programs and realign exchange rates. These policy changes reduce food imports in the near term; in the long term, they will help countries resume the steady economic growth that leads to increased food demand and imports. Economic growth remains the long-term solution to increasing trade, but the debt problems of developing countries will severely hurt trade in the short and medium term unless a way is found to make debt more manageable.

Figure 3

Net Coarse Grain Imports in Upper and Lower Income Developing Countries[1,2]



1/ Three-year averages. 2/ Negative volumes represent net exports

A wholesale reduction in trade barriers along with management of the debt crisis would enlarge trade with developing countries. Developing countries would be able to export more products to industrial countries and, in turn, buy more U.S. farm goods.

SUMMARY

Developing countries are potential growth markets for U.S. farm exports. To encourage this growth, food demand in the developing world must be increased by raising incomes and solving the debt crisis. Developing countries can be growth markets only to the extent that their own economies are growing.

FOR ADDITIONAL INFORMATION...

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Also see...

John W. Mellor, *The New Global Context for Agricultural Research*, Food Policy Statement, International Food Policy Research Institute, Washington, DC, 1986.

United States Agricultural Exports and Third World Development: The Critical Linkage, Curry Foundation, Washington, DC, 1986.

Current debate on farm policy is based on conflicting reactions to the 1985 Food Security Act. A decision made on behalf of one group may have unanticipated or adverse effects on others. This bulletin is one in a series published by USDA's Economic Research Service aimed at informing those debating farm policy about the highly interrelated nature of agricultural policymaking. Other available bulletins in the series are:

- *Choices for Implementing the Conservation Reserve* (AIB-507)
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